

STIFEL FINANCIAL CORP
Form 10-K
February 26, 2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2009
Commission File No. 1-9305
STIFEL FINANCIAL CORP.

(Exact Name of Registrant as specified in its Charter)

DELAWARE **43-1273600** (State or Other Jurisdiction of (IRS Employer Identification No.) Incorporation or Organization) **501 North Broadway St. Louis, Missouri 63102** (Address of Principal Executive Offices)
(Zip Code)
(314) 342-2000

(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Name of Each Exchange Title of Each Class On Which Registered Common Stock, par value \$0.15 per share The New York Stock Exchange Chicago Stock Exchange Preferred Stock Purchase Rights The New York Stock Exchange Chicago Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of the registrant's common stock, \$0.15 par value per share, held by non-affiliates of the registrant as of the close of business on June 30, 2009 was \$1,461,940,857.*

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

The number of shares outstanding of the registrant's common stock, \$0.15 par value per share, as of the close of business on February 1, 2010 was 30,884,711.

* In determining this amount, the registrant assumed that the executive officers of the registrant and the registrant's directors are affiliates of the registrant. Such assumptions shall not be deemed to be conclusive for any other purposes.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the annual meeting of shareholders, to be held on April 13, 2010, are incorporated by reference in Part III hereof.

STIFEL FINANCIAL CORP.

TABLE OF CONTENTS

Part I

Item 1.

Business 4

Item 1A.

Risk Factors 14

Item 1B.

Unresolved Staff Comments 24

Item 2.

Properties 25

Item 3.

Legal Proceedings 26

Item 4.

Submission of Matters to a Vote of Security Holders 27

Part II

Item 5.

Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities 28

Item 6.

Selected Financial Data 31

Item 7.

Management's Discussion and Analysis of Financial Condition and Results of Operations 33

Item 7A.

Quantitative and Qualitative Disclosures About Market Risk 81

Item 8.

Financial Statements and Supplementary Data 86

Item 9.

Changes in and Disagreements with Accountants and Accounting and Financial Disclosure 147

Item 9A.

Controls and Procedures 147

Item 9B.

Other Information 149

Part III

Item 10.

Directors, Executive Officers and Corporate Governance 149

Item 11.

Executive Compensation 149

Item 12.

Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters 149

Item 13.

Certain Relationships and Related Transactions, and Director Independence 150

Item 14.

Principal Accounting Fees and Services 150

Part IV

Item 15.

Exhibits, Financial Statement Schedules 151

Signatures 156

PART I

Certain statements in this report may be considered forward-looking. Statements that are not historical or current facts, including statements about beliefs and expectations, are forward-looking statements. These forward-looking statements cover, among other things, statements made about general economic, political, regulatory and market conditions, the investment banking and brokerage industries, our objectives and results, and also may include our belief regarding the effect of various legal proceedings, management expectations, our liquidity and funding sources, counterparty credit risk, or other similar matters. Forward-looking statements involve inherent risks and uncertainties, and important factors could cause actual results to differ materially from those anticipated, including those factors discussed below under "Risk Factors" in Item 1A, as well as those discussed in "External Factors Impacting Our Business" included in "Management Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of this report.

Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements. In addition, our past results of operations do not necessarily indicate our future results. We undertake no obligation to publicly release any revisions to the forward-looking statements or reflect events or circumstances after the date of this document.

ITEM 1. BUSINESS

Stifel Financial Corp. is a Delaware corporation and a financial holding company headquartered in St. Louis. We were organized in 1983. Our principal subsidiary is Stifel, Nicolaus & Company, Incorporated ("Stifel Nicolaus"), a full service retail and institutional brokerage and investment banking firm. Stifel Nicolaus is the successor to a partnership founded in 1890. Our other subsidiaries include Century Securities Associates, Inc. ("CSA"), an independent contractor broker-dealer firm, Stifel Nicolaus Limited ("SN Ltd"), our international subsidiary, and Stifel Bank & Trust ("Stifel Bank"), a retail and commercial bank. Unless the context requires otherwise, the terms "our company," "we," and "our" as used herein refer to Stifel Financial Corp. and its subsidiaries.

With our century-old operating history, we have built a diversified business serving private clients, institutional investors and investment banking clients located across the country. Our principal activities are:

- Private client services, including securities transaction and financial planning services;
- Institutional equity and fixed income sales, trading and research, and municipal finance;
- Investment banking services, including mergers and acquisitions, public offerings and private placements; and
- Retail and commercial banking, including personal and commercial lending programs.

Our core philosophy is based upon a tradition of trust, understanding and studied advice. We attract and retain experienced professionals by fostering a culture of entrepreneurial, long-term thinking. We provide our private, institutional and corporate clients quality, personalized service, with the theory that if we place clients' needs first, both our clients and our company will prosper. Our unwavering client and employee focus have earned us a reputation as one of the leading brokerage and investment banking firms off Wall Street.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

We have grown our business both organically and through opportunistic acquisitions. Over the past several years, we have grown substantially, primarily by completing and successfully integrating a number of acquisitions, including our acquisition of the capital markets business of Legg Mason ("LM Capital Markets") from Citigroup in December 2005 and the following more recent acquisitions:

- **Miller Johnson Steichen Kinnard, Inc. ("MJSK")** - On December 5, 2006, we closed on the acquisition of the private client business and certain assets and liabilities of MJSK, a privately held broker-dealer. The acquisition was completed to further grow our company's private client business, particularly in the state of Minnesota.
- **Ryan Beck Holdings, Inc. ("Ryan Beck") and its wholly-owned broker-dealer subsidiary Ryan Beck & Company, Inc.** - On February 28, 2007, we closed on the acquisition of Ryan Beck, a full-service brokerage and investment banking firm with a strong private client focus, from BankAtlantic Bancorp, Inc. The acquisition was made because the combination of Stifel Nicolaus and Ryan Beck represented a good strategic fit between two well established regional broker-dealers with similar business models and cultures.
- **First Service Financial Company ("First Service") and its wholly-owned subsidiary FirstService Bank** - On April 2, 2007, we completed our acquisition of First Service, and its wholly-owned subsidiary FirstService Bank, a St. Louis-based Missouri commercial bank, by means of the merger of First Service with and into FSFC Acquisition Co. ("AcquisitionCo"), a Missouri corporation and wholly-owned subsidiary of Stifel Financial Corp., with AcquisitionCo surviving the merger. Upon consummation of the merger, we became a bank holding company and a financial holding company, subject to the supervision and regulation of The Board of Governors of the Federal Reserve System. Also, FirstService Bank has converted its charter from a Missouri bank to a Missouri trust company and changed its name to "Stifel Bank & Trust." On December 30, 2009, Stifel Bank entered into a Branch Purchase and Assumption Agreement providing for the sale of a branch office. The transaction, which is subject to regulatory approvals and certain closing conditions, is expected to be completed during the first quarter of 2010.
- **Butler, Wick & Co., Inc. ("Butler Wick")** - On December 31, 2008, we closed on the acquisition of Butler Wick, a privately-held broker-dealer who specialized in providing financial advice to individuals, municipalities and corporate clients. Butler Wick was headquartered in Youngstown, Ohio.
- **UBS Financial Services Inc. ("UBS")** - On March 23, 2009, we announced that Stifel Nicolaus had entered into a definitive agreement with UBS to acquire certain specified branches from the UBS Wealth Management Americas branch network. As subsequently amended, we agreed to acquire 56 branches (the "Acquired Locations") from UBS in four separate closings pursuant to this agreement. We completed the closings on the following dates: August 14, 2009, September 11, 2009, September 25, 2009 and October 16, 2009.

Business Segments

We operate in the following segments: Global Wealth Management, Capital Markets, and Other. As a result of organizational changes in the second quarter of 2009, which included a change in the management reporting structure of our company, the segments formerly reported as Equity Capital Markets and Fixed Income Capital Markets have been combined into a single segment called Capital Markets. In addition, the UBS branch acquisition and related customer account conversion to our platform has enabled us to further leverage our customers' assets, which allows us the ability to provide a full array of financial products to both our Private Client Group and Stifel Bank customers. As a result, during the third quarter of 2009, we changed how we manage these reporting units and consequently they were combined to form the Global Wealth Management segment. Previously reported segment information has been revised to reflect this change. For a discussion of the financial results of our segments, see Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations - Segment Analysis."

Narrative description of business

As of December 31, 2009, we employed 4,434 individuals, including 1,719 financial advisors. In addition, 166 financial advisors were affiliated with CSA as independent contractors. As of December 31, 2009, through our broker-dealer subsidiaries, we provide securities related financial services to approximately 1.0 million client accounts of customers throughout the United States and Europe. Our customers include individuals, corporations, municipalities and institutions. Although we have customers throughout the United States, our major geographic area of concentration is in the Midwest and Mid-Atlantic regions, with a growing presence in the Northeast, Southeast and Western United States. No single client accounts for a material percentage of any segment of our business. Our inventory, which we believe is of modest size and intended to turn-over quickly, exists to facilitate order flow and support the investment strategies of our clients. Although we do not engage in significant proprietary trading for our own account, the inventory of securities held to facilitate customer trades and our market making activities are sensitive to market movements. Furthermore, our balance sheet is highly liquid, without material holdings of securities that are difficult to value or remarket. We believe that our broad platform, fee-based revenues and strong distribution network position us well to take advantage of current trends within the financial services sector.

GLOBAL WEALTH MANAGEMENT

We provide securities transaction, brokerage and investment services to our clients through the consolidated Stifel Nicolaus branch system and through CSA, our wholly-owned independent contractor subsidiary. We have made significant investments in personnel and technology to grow the Private Client Group over the past ten years. At December 31, 2009, the Private Client Group, with a concentration in the Midwest and Mid-Atlantic regions and a growing presence in the Northeast, Southeast and Western United States, had a network of 1,885 financial advisors, consisting of 1,719 employees located in 272 branch offices in 42 states and the District of Columbia and 166 independent contractors.

Consolidated Stifel Nicolaus Branch System

Our financial advisors provide a broad range of investments and services, including financial planning services to our clients. We offer equity securities, taxable and tax-exempt fixed income securities, including municipal, corporate, and government agency securities, preferred stock and unit investment trusts. We also offer a broad range of externally managed fee-based products. In addition, we offer insurance and annuity products and investment company shares through agreements with numerous third party distributors. We encourage our financial advisors to pursue the products and services they feel most comfortable recommending, rather than emphasizing proprietary products. Our private clients may choose from a traditional, commission-based structure or fee-based money management programs. In most cases, commissions are charged for sales of investment products to clients based on an established commission schedule. In certain cases, varying discounts may be given based on relevant client or trade factors determined by the financial advisor.

CSA Private Client

At December 31, 2009, CSA had affiliations with 166 independent contractors in 134 branch offices in 28 states. CSA's independent contractors provide the same types of financial products and services to its private clients as does Stifel Nicolaus. Under their contractual arrangements, these independent contractors may also provide accounting services, real estate brokerage, insurance, or other business activities for their own account. However, all securities transactions must be transacted through CSA. Independent contractors are responsible for all of their direct costs and are paid a larger percentage of commissions to compensate them for their added expenses. CSA is an introducing broker-dealer and, as such, clears its transactions through Stifel Nicolaus.

Customer Financing

Client securities transactions are effected on either a cash or margin basis. The customer deposits less than the full cost of the security when securities are purchased on a margin basis. We make a loan for the balance of the purchase price. Such loans are collateralized by the securities purchased. The amounts of the loans are subject to the margin requirements of Regulation T of the Board of Governors of the Federal Reserve System, Financial Industry Regulatory Authority ("FINRA") margin requirements, and our internal policies, which usually are more restrictive than Regulation T or FINRA requirements. In permitting customers to purchase securities on margin, we are subject to the risk of a market decline, which could reduce the value of our collateral below the amount of the customers' indebtedness.

Stifel Bank

In April 2007, we completed the acquisition of First Service, a St. Louis-based full service bank, which now operates as Stifel Bank & Trust and is reported in the Global Wealth Management segment. Since the closing of the bank acquisition, we have grown retail and commercial bank assets from \$145.6 million on acquisition date to \$1,142.0 million at December 31, 2009. Through Stifel Bank, we offer retail and commercial banking services to private and corporate clients, including personal loan programs such as fixed and variable mortgage loans, home equity lines of credit, personal loans, loans secured by CDs or savings, automobile loans and securities-based loans as well as commercial lending programs such as small business loans, commercial real estate loans, lines of credit, credit cards, term loans, and inventory and receivables financing, in addition to other banking products. We believe this acquisition will not only help us serve our private clients more effectively by offering them a broader range of services, but will also enable us to better utilize our private client cash balances.

CAPITAL MARKETS

The Capital Markets segment includes research, equity and fixed income institutional sales and trading, investment banking, public finance and syndicate, and consisted of 734 employees at December 31, 2009.

Research

Our research department consisted of 151 analysts and support associates who publish research across multiple industry groups and provide our clients with timely, insightful and actionable research, aimed at improving investment performance.

Institutional Sales and Trading

Our equity sales and trading team distributes our proprietary equity research products and communicates our investment recommendations to our client base of institutional investors, executes equity trades, sells the securities of companies for which we act as an underwriter and makes a market in over 2,200 domestic securities at December 31, 2009. In our various sales and trading activities, we take a focused approach on servicing our clients as opposed to proprietary trading for our own account. Located in 13 cities in the United States as well as Geneva, London and Madrid, our equity sales and trading team, consisting of 159 professionals and support professionals and associates, services approximately 1,400 clients globally.

The fixed income institutional sales and trading group consists of 181 professionals and support associates, located in 21 cities in the United States and is comprised of taxable and tax-exempt sales departments. Our institutional sales and trading group executes trades in both tax-exempt and taxable products, with diversification across municipal, corporate, government agency and mortgage-backed securities. Our fixed income inventory is maintained primarily to facilitate order flow and support the investment strategies of our institutional fixed income clients, as opposed to seeking trading profits through proprietary trading.

Investment Banking

Our investment banking activities include the provision of financial advisory services principally with respect to mergers and acquisitions, and the execution of public offerings and private placements of debt and equity securities. The investment banking group, consisting of 159 professionals and support associates, focuses on middle-market companies as well as on larger companies in targeted industries where we have particular expertise, which include real estate, financial services, healthcare, aerospace/defense and government services, telecommunications, transportation, energy, business services, consumer services, industrial, technology and education.

Our public finance group acts as an underwriter and dealer in bonds issued by states, cities and other political subdivisions and acts as manager or participant in offerings managed by other firms. The public finance group consists of 77 professionals and support associates.

Syndicate

Our syndicate department, which consists of seven origination and execution professionals and support associates, coordinates marketing, distribution, pricing and stabilization of our managed equity and debt offerings. In addition, the department coordinates our underwriting participations and selling group opportunities managed by other investment banking firms.

OTHER SEGMENT

The Other segment includes interest income from stock borrow activities, unallocated interest expense, interest income and gains and losses on investments held, and all unallocated overhead costs associated with the execution of orders; processing of securities transactions; custody of client securities; receipt, identification, and delivery of funds and securities; compliance with regulatory and legal requirements; internal financial accounting and controls; acquisition charges related to the LM Capital Markets and Ryan Beck acquisitions; and general administration. At December 31, 2009, we employed 527 persons in this segment.

BUSINESS CONTINUITY

We have developed a business continuity plan that is designed to permit continued operation of business critical functions in the event of disruptions to our St. Louis, Missouri headquarters facility. Several critical business applications are supported by our outside vendors who maintain backup capabilities. We periodically participate in testing these backup facilities. Likewise, the business functions that we run internally can be supported without the St. Louis headquarters, either through our redundant computer capacities in our Jersey City, New Jersey; and Baltimore, Maryland locations, or from our branch locations that can connect to our third party securities processing vendor through its primary or redundant facilities. Systems have been designed so that we can route all mission critical processing activity either through Jersey City or Baltimore to alternate locations, which can be staffed with relocated personnel as appropriate.

GROWTH STRATEGY

We believe our plans for growth will allow us to increase our revenues and to expand our role with clients as a valued partner. In executing our growth strategy, we take advantage of the consolidation among mid-tier firms, which we believe provides us opportunities in our private client and capital markets businesses. We intend to pursue the following strategies:

- *Further expand our private client footprint in the U.S.* We have expanded the number of our private client branches from 39 at December 31, 1997 to 272 at December 31, 2009 and our branch-based financial advisors from 262 to 1,719 over the same period. In addition, assets under management have grown from \$11.7 billion at December 31, 1997 to \$91.3 billion at December 31, 2009. Through organic growth and acquisitions, we currently have a strong footprint nationally, concentrated in the Midwest and Mid-Atlantic regions, with a growing presence in the Northeast, Southeast, and Western United States. Over time, we plan to further expand our domestic private client footprint. We plan on achieving this through recruiting experienced financial advisors with established client relationships and continuing to selectively consider acquisition opportunities as they may arise.
- *Further expand our institutional equity business both domestically and internationally.* Our institutional equity business is built upon the premise that high quality fundamental research is not a commodity. The growth of our business over the last 10 years has been fueled by the effective partnership of our highly rated research and institutional sales and trading teams. Several years ago, we identified an opportunity to expand our research capabilities by taking advantage of market disruptions and the long-term impact of the global settlement on Wall Street research. As a result, we have grown from 43 analysts covering 513 companies in 2005 to 61 analysts covering 850 companies at December 31, 2009. In addition, as of December 31, 2009, our research department was ranked the fourth largest research department, as measured by domestic equities under coverage, by StarMine. Our goal is to further monetize our research platform by adding additional institutional sales and trading teams and by placing a greater emphasis on client management.
- *Grow our investment banking business.* By leveraging our industry expertise, our product knowledge, our research platform, our experienced associates, our capital markets strength, our middle-market focus and our private client network, we intend to grow our investment banking business. We believe our position as a mid-tier focused investment bank with broad-based and respected research will allow us to take advantage of opportunities in the middle-market and continue to align our investment banking coverage with our research footprint.
- *Focus on asset generation within our Stifel Bank operations and offer retail and commercial banking services to our clients.* We believe the addition of Stifel Bank banking services strengthens our existing client relationships and helps us recruit financial advisors seeking to provide a full range of services to their private clients. We intend to increase the sale of banking products and services to our private and corporate clients.
- *Approach acquisition opportunities with discipline.* Over the course of our operating history, we have demonstrated our ability to identify, effect, and integrate attractive acquisition opportunities. We believe the current environment and market dislocation will provide us with the ability to thoughtfully consider acquisitions on an opportunistic basis.

COMPETITION

We compete with other securities firms, some of which offer their customers a broader range of brokerage services, have substantially greater resources, and may have greater operating efficiencies. In addition, we face increasing competition from other financial institutions, such as commercial banks, online service providers, and other companies offering financial services. The Financial Modernization Act, signed into law in late 1999, lifted restrictions on banks and insurance companies, permitting them to provide financial services once dominated by securities firms. In addition, recent consolidation in the financial services industry may lead to increased competition from larger, more diversified organizations.

We rely on the expertise acquired in our market area over our 119-year history, our personnel, and our equity capital to operate in the competitive environment.

REGULATION

The securities industry in the United States is subject to extensive regulation under federal and state laws. The Securities and Exchange Commission ("SEC") is the federal agency charged with the administration of the federal securities laws. Much of the regulation of broker-dealers, however, has been delegated to self-regulatory organizations ("SRO"), principally FINRA, the Municipal Securities Rulemaking Board, and securities exchanges. SROs adopt rules (which are subject to approval by the SEC) that govern the industry and conduct periodic examinations of member broker-dealers. Securities firms are also subject to regulation by state securities commissions in the states in which they are registered.

As a result of federal and state registration and SRO memberships, broker-dealers are subject to overlapping schemes of regulation that cover all aspects of their securities businesses. Such regulations cover matters including capital requirements; uses and safekeeping of clients' funds; conduct of directors, officers, and employees; recordkeeping and reporting requirements; supervisory and organizational procedures intended to ensure compliance with securities laws and to prevent improper trading on material nonpublic information; employee-related matters, including qualification and licensing of supervisory and sales personnel; limitations on extensions of credit in securities transactions; clearance and settlement procedures; requirements for the registration, underwriting, sale, and distribution of securities; and rules of the SROs designed to promote high standards of commercial honor and just and equitable principles of trade. A particular focus of the applicable regulations concerns the relationship between broker-dealers and their customers. As a result, many aspects of the broker-dealer customer relationship are subject to regulation, including, in some instances, "suitability" determinations as to certain customer transactions, limitations on the amounts that may be charged to customers, timing of proprietary trading in relation to customers' trades, and disclosures to customers.

Additional legislation, changes in rules promulgated by the SEC and by SROs, and changes in the interpretation or enforcement of existing laws and rules often directly affect the method of operation and profitability of broker-dealers. The SEC and the SROs conduct regular examinations of our broker-dealer subsidiaries and also initiate targeted and other specific inquiries from time to time, which generally include the investigation of issues involving substantial portions of the securities industry. The SEC and the SROs may determine to take no formal action in certain matters. The SEC and the SROs may conduct administrative proceedings, which can result in censures, fines, suspension, or expulsion of a broker-dealer, its officers, or employees. The principal purpose of regulation and discipline of broker-dealers is the protection of customers and the securities markets rather than the protection of creditors and stockholders of broker-dealers.

As broker-dealers, Stifel Nicolaus, and CSA are subject to the Uniform Net Capital Rule (Rule 15c3-1) promulgated by the SEC. The Uniform Net Capital Rule is designed to measure the general financial integrity and liquidity of a broker-dealer and the minimum net capital deemed necessary to meet the broker-dealer's continuing commitments to its customers and other broker-dealers. Broker-dealers may be prohibited from expanding their business and declaring cash dividends. A broker-dealer that fails to comply with the Uniform Net Capital Rule may be subject to disciplinary actions by the SEC and SROs, such as FINRA, including censures, fines, suspension, or expulsion. Stifel Nicolaus has chosen to calculate its net capital under the alternative method, which prescribes that their net capital shall not be less than the greater of \$1.0 million or two percent of aggregate debit balances (primarily receivables from customers and broker-dealers) computed in accordance with the SEC's Customer Protection Rule (Rule 15c3-3). CSA calculates its net capital under the aggregate indebtedness method whereby its aggregate indebtedness may not be greater than fifteen times its net capital (as defined). Both methods allow broker-dealers to increase their commitments to customers only to the extent their net capital is deemed adequate to support an increase. Our international subsidiary, SN Ltd, is subject to the regulatory supervision and requirements of the Financial Services Authority ("FSA") in the United Kingdom. See the section entitled "Liquidity and Capital Resources" in Item 7 of this report regarding our minimum net capital requirements.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Our company, as a bank and financial holding company, is subject to regulation, including capital requirements, by the Federal Reserve. Stifel Bank is subject to various regulatory capital requirements administered by the Federal Deposit Insurance Corporation ("FDIC") and state banking authorities. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on our company's and Stifel Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, our company and Stifel Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. Our company's and Stifel Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Quantitative measures established by regulation to ensure capital adequacy require our company and Stifel Bank to maintain minimum amounts and ratios of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and Tier 1 capital (as defined) to average assets (as defined). We may be required to increase our regulatory capital and pay higher FDIC premiums, including special assessments, due to the impact of current state of the financial services industry and overall economy on the insurance fund of the FDIC.

The statistical disclosures required to be made by a bank holding company are included in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this report.

As a public company whose common stock is listed on the New York Stock Exchange ("NYSE") and the Chicago Stock Exchange ("CHX"), we are subject to corporate governance requirements established by the SEC, NYSE, and CHX, as well as federal and state law. Under the Sarbanes-Oxley Act of 2002 (the "Act"), we are required to meet certain requirements regarding business dealings with members of the Board of Directors, the structure of our Audit Committee, ethical standards for our senior financial officers, implementation of an internal control structure and procedures for financial reporting, and additional responsibilities regarding financial statements for our Chief Executive Officer and Chief Financial Officer and their assessment of our internal controls over financial reporting. Compliance with all aspects of the Act, particularly the provisions related to management's assessment of internal controls, has imposed additional costs on our company reflecting internal staff and management time, as well as additional audit fees since the Act went into effect.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Executive Officers

Information regarding our executive officers and their ages as of February 26, 2010 are as follows:

Name

Age

Position(s)

Ronald J. Kruszewski

51

Chairman of the Board of Directors, President, and Chief Executive Officer of the Company and Chairman of the Board of Directors and Chief Executive Officer of Stifel Nicolaus

Scott B. McCuaig

60

Senior Vice President and Director of the Company and President, Co-Chief Operating Officer, and Director of Stifel Nicolaus.

James M. Zemlyak

50

Senior Vice President Chief Financial Officer, Treasurer and Director of the Company and Executive Vice President, Co-Chief Operating Officer, and Director of Stifel Nicolaus.

Richard J. Himelfarb

68

Vice Chairman, Senior Vice President and Director of the Company and Executive Vice President, Chairman of Investment Banking, and Director of Stifel Nicolaus.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

David M. Minnick

53

Senior Vice President and General Counsel of the Company and Stifel Nicolaus.

Thomas P. Mulroy

48

Senior Vice President and Director of the Company and Executive Vice President, Co-Director of Capital Markets, and Director of Stifel Nicolaus.

Victor J. Nesi

49

Senior Vice President and Director of the Company and Executive Vice President, Director of Investment Banking, Co-Director of Capital Markets, and Director of Stifel Nicolaus.

Ben A. Plotkin

54

Vice-Chairman, Senior Vice President and Director of the Company and Executive Vice President of Stifel Nicolaus.

David D. Sliney

40

Senior Vice President of the Company and Senior Vice President and Director of Stifel Nicolaus.

Ronald J. Kruszewski has been President and Chief Executive Officer of our company and Stifel Nicolaus since September 1997 and Chairman of the Board of Directors of our company and Stifel Nicolaus since April 2001. Prior thereto, Mr. Kruszewski served as Managing Director and Chief Financial Officer of Baird Financial Corporation and Managing Director of Robert W. Baird & Co. Incorporated, a securities broker-dealer firm, from 1993 to September 1997. Mr. Kruszewski has been a Director since September 1997.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Scott B. McCuaig has been Senior Vice President and President of the Private Client Group and Stifel Nicolaus and Director of Stifel Nicolaus since January 1998 and President and Co-Chief Operating Officer of Stifel Nicolaus since August 2002. Prior thereto, Mr. McCuaig served as Managing Director, head of marketing, and regional sales manager of Robert W. Baird & Co. Incorporated from June 1988 to January 1998. Mr. McCuaig has been a Director since April 2001.

James M. Zemlyak joined Stifel Nicolaus in February 1999. Mr. Zemlyak has been our Senior Vice President, Chief Financial Officer, and Treasurer and a member of the Board of Directors of Stifel Nicolaus since February 1999, Co-Chief Operating Officer of Stifel Nicolaus since August 2002, and Executive Vice President of Stifel Nicolaus since December 1, 2005. Mr. Zemlyak also served as Chief Financial Officer of Stifel Nicolaus from February 1999 to October 2006. Prior to joining our company, Mr. Zemlyak served as Managing Director and Chief Financial Officer of Baird Financial Corporation from 1997 to 1999 and Senior Vice President and Chief Financial Officer of Robert W. Baird & Co. Incorporated from 1994 to 1999.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Richard J. Himelfarb has served as Senior Vice President and Director of our company and Executive Vice President, and Director of Stifel Nicolaus since December 2005. Mr. Himelfarb was designated Chairman of Investment Banking in July 2009. Prior to that, Mr. Himelfarb served as Executive Vice President and Director of Investment Banking from December 2005 through July 2009. Prior to joining our company, Mr. Himelfarb served as a director of Legg Mason, Inc. from November 1983 and Legg Mason Wood Walker, Inc. from January 2005. Mr. Himelfarb was elected Executive Vice President of Legg Mason and Legg Mason Wood Walker, Inc. in July 1995, having previously served as Senior Vice President from November 1983.

David M. Minnick has served as Senior Vice President and General Counsel of our company and Stifel Nicolaus since October 2004. Prior thereto, Mr. Minnick served as Vice President and Counsel for A.G. Edwards & Sons, Inc. from August 2002 through October 2004, Senior Regional Attorney for NASD Regulation, Inc. from November 2000 through July 2002, as an attorney in private law practice from September 1998 through November 2000, and as General Counsel and Managing Director of Morgan Keegan & Company, Inc. from October 1990 through August 1998.

Thomas P. Mulroy has served as Senior Vice President and Director of our company and Executive Vice President, and Director of Stifel Nicolaus since December 2005. Mr. Mulroy was named Co-Director of Capital Markets in July 2009. Prior to that, Mr. Mulroy served as Director of Equity Capital Markets from December 2005 through July 2009. Mr. Mulroy has responsibility for institutional equity sales, trading, and research. Prior to joining our company, Mr. Mulroy was elected Executive Vice President of Legg Mason, Inc. in July 2002 and of Legg Mason Wood Walker, Inc. in November 2000. Mr. Mulroy became a Senior Vice President of Legg Mason, Inc. in July 2000 and Legg Mason Wood Walker, Inc. in August 1998.

Victor J. Nesi has served as Executive Vice President, Director of Investment Banking and Co-Director of Capital Markets since July 2009. Mr. Nesi has served as Director of our company since August 2009. Mr. Nesi has responsibility for corporate finance investment banking activities and is Co-Director of our Capital Markets segment. Mr. Nesi has more than 20 years of banking and private equity experience, most recently with Merrill Lynch, where he headed the global private equity business for the telecommunications and media industry. From 2005 to 2007, he directed Merrill Lynch's investment banking group for the Americas region. Prior to joining Merrill Lynch in 1996, Mr. Nesi spent seven years as an investment banker at Salomon Brothers and Goldman Sachs.

Ben A. Plotkin has been a Vice-Chairman, Senior Vice President and Director of our company since August 2007 and an Executive Vice President of Stifel Nicolaus since February, 2007. Mr. Plotkin also served as Chairman and Chief Executive Officer of Ryan Beck & Company, Inc., from 1997 until its acquisition by our company in 2007. Mr. Plotkin was elected Executive Vice President of Ryan Beck in 1990. Mr. Plotkin became a Senior Vice President of Ryan Beck in 1989, and was appointed First Vice President of Ryan Beck in December of 1987. Mr. Plotkin joined Ryan Beck in May of 1987 as a Director and Vice President in the Investment Banking Division.

David D. Sliney has been a Senior Vice President of our company since May 2003. In 1997, Mr. Sliney began a Strategic Planning and Finance role with Stifel Nicolaus and has served as a Director of Stifel Nicolaus since May 2003. Mr. Sliney is also responsible for our company's Operations and Technology departments. Mr. Sliney joined Stifel Nicolaus in 1992, and between 1992 and 1995, Mr. Sliney worked as a fixed income trader and later assumed responsibility for the firm's Equity Syndicate Department.

AVAILABLE INFORMATION

Our internet address is www.stifel.com. We make available, free of charge, through a link to the SEC web site, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to reports filed or furnished pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, as well as proxy statements, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

Additionally, we make available on our web site under "Investor Relations - Corporate Governance," and in print upon request of any shareholder to our Chief Financial Officer, a number of our corporate governance documents. These include: Executive Committee charter, Audit Committee charter, Compensation Committee charter, Nominating/Corporate Governance Committee charter, Corporate Governance Guidelines, Complaint Reporting Process, and the Code of Ethics for Employees. Within the time period required by the SEC and the NYSE, we will post on our web site any modifications to any of the available documents. The information on our website is not incorporated by reference into this report. Our Chief Financial Officer can be contacted at Stifel Financial Corp., One Financial Plaza, 501 N. Broadway, St. Louis, MO 63102, telephone: (314) 342-2000.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the following factors which could materially affect our business, financial condition or future results of operations. Although the risks described below are those that management believes are the most significant, these are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently do not deem to be material also may materially affect our business, financial condition or future results of operations. We may amend or supplement these risk factors from time to time in other reports we file with the SEC.

Our results of operations may be adversely affected by conditions in the global financial markets and economic downturn.

Our results of operations are materially affected by conditions in the financial markets and economic conditions generally, both in the United States and elsewhere around the world. Significant weaknesses and volatility in the credit markets stemming from difficulties in the U.S. housing market spread to the broader financial market and lead to a decline in global economic growth that has resulted in a significant recession. Specifically, dramatic declines in U.S. housing market values, together with increasing foreclosures and unemployment, have resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities, as well as major commercial and investment banks. These write-downs, which were initially associated with mortgaged-backed securities but which have substantially spread to credit default swaps and other derivative securities, in turn have caused many financial institutions to seek additional capital, to merge with larger and stronger institutions and, in some cases, to fail. Reflecting concern about the stability of the financial markets generally and the strength of counterparties, many lenders and institutional investors have ceased to provide funding to even the most credit-worthy borrowers. This market turmoil and tightening of credit have led to an increased level of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility and widespread reduction of business activity generally.

The resulting economic pressures on consumers and businesses and the lack of confidence in the financial markets have adversely affected our business, financial condition and results of operations. Despite recent improvements in market conditions, a potential future decline in these conditions would likely exacerbate the adverse effects of these difficult market conditions on us and others in the financial services industry. It is difficult to predict how long these uncertain market and economic conditions and the accompanying recession will continue, whether the global credit crisis will cause market and economic conditions to continue to deteriorate, and which of our markets, products and businesses will continue to be adversely affected and to what degree. We may have impairment losses if events or changes in circumstances occur which may reduce the fair value of an asset below its carrying amount. As a result, these conditions could adversely affect our financial condition and results of operations. In addition, we may be subject to increased regulatory scrutiny and litigation due to these issues and events.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

A significant portion of our revenue is derived from commissions, margin interest revenue, principal transactions, asset management and service fees, and investment banking fees. Accordingly, severe market fluctuations, weak economic conditions, a decline in stock prices, trading volumes, or liquidity could have an adverse affect on our profitability. Continued or further credit dislocations or sustained market downturns may result in a decrease in the volume of trades we execute for our clients, a decline in the value of securities we hold in inventory as assets, and reduced investment banking revenues. Poor economic conditions have adversely affected investor confidence, resulting in significant industry-wide declines in the size and number of underwritings and advisory transactions, which could continue to have an adverse effect on our revenues.

The fixed income markets are experiencing a period of extreme volatility which has negatively impacted market liquidity conditions. As a result, fixed income instruments are experiencing liquidity issues, increased price volatility, credit downgrades, and increased likelihood of default. In addition to being hard to dispose of, securities that are less liquid are also more difficult to value. Domestic and international equity markets have also been experiencing heightened volatility and turmoil, and as a result issuers that have exposure to the real estate, mortgage and credit markets, including banks and broker-dealers, have been particularly affected. These events and the continuing market upheavals may have an adverse effect on us. In the event of a sustained market downturn, our results of operations could be adversely affected by those factors in many ways. Our revenues are likely to decline in such circumstances and, if we were unable to reduce expenses at the same pace, our profit margins would erode. Even in the absence of a sustained market downturn, we are exposed to substantial risk of loss due to market volatility.

In addition, declines in the market value of securities generally result in a decline in revenues from fees based on the asset values of client portfolios, in the failure of buyers and sellers of securities to fulfill their settlement obligations, and in the failure of our clients to fulfill their credit and settlement obligations. During market downturns, our counterparties may be less likely to complete transactions. Also, we permit our clients to purchase securities on margin. During periods of steep declines in securities prices, the value of the collateral securing client accounts' margin purchases may drop below the amount of the purchaser's indebtedness. If the clients are unable to provide additional collateral for these loans, we may lose money on these margin transactions. This may cause us to incur additional expenses defending or pursuing claims or litigation related to counterparty or client defaults.

In addition, in certain of the transactions we are required to post collateral to secure our obligations to the counterparties. In the event of a bankruptcy or insolvency proceeding involving such counterparties, we may experience delays in recovering our assets posted as collateral or may incur a loss to the extent that the counterparty was holding collateral in excess of our obligation to such counterparty. There is no assurance that any such losses would not materially and adversely affect our business, financial condition and results of operations.

Recent legislative and regulatory actions, and any such future actions, to address the current liquidity and credit crisis in the financial industry may significantly affect our financial condition, results of operation, liquidity or stock price.

Recent economic conditions, particularly in the financial markets, as well as the effect of the change of administration in the White House, have resulted in government regulatory agencies and political bodies placing increased focus on and scrutiny of the financial services industry. In addition to the U.S. Treasury Department's Capital Purchase Program (in which we have not participated), under the Troubled Asset Relief Program announced last fall and the new Capital Assistance Program announced in the spring (in which we have not participated), the U.S. Government has taken steps that include enhancing the liquidity support available to financial institutions, establishing a commercial paper funding facility, temporarily guaranteeing money market funds and certain types of debt issuances, and increasing insurance on bank deposits, and the U.S. Congress, through the Emergency Economic Stabilization Act of 2008, and the American Recovery and Reinvestment Act of 2009 have imposed a number of restrictions and limitations on the operations of financial services firms participating in the federal programs. Further, there is no assurance that these programs individually or collectively will have beneficial effects in the credit markets, will address credit or liquidity issues of companies that participate in the programs or will reduce volatility or uncertainty in the financial markets. The failure of these programs to have their intended effects could have a material adverse effect on the financial markets, which in turn could materially and adversely affect our financial condition, results of operations, or liquidity.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

We anticipate new legislative and regulatory initiatives over the next several years, including many focused specifically on the financial services industry that could further substantially increase regulation of the financial services industry and impose restrictions on the operations and general ability of firms within the industry to conduct business consistent with historical practices. We cannot predict the substance or impact of pending or future legislation, regulation or the application thereof. Compliance with such current and potential regulation and scrutiny may significantly increase our costs, impede the efficiency of our internal business processes, require us to increase our regulatory capital, impact how we compensate and incent our associates and limit our ability to pursue business opportunities in an efficient manner.

Lack of sufficient liquidity or access to capital could impair our business and financial condition.

Liquidity is essential to our business. If we have insufficient liquid assets, we will be forced to curtail our operations, and our business will suffer. Our assets, consisting mainly of cash or assets readily convertible into cash, are our principle source of liquidity. These assets are financed primarily by our equity capital, debentures to trusts, client credit balances, short-term bank loans, proceeds from securities lending, customer deposits and other payables. We currently finance our client accounts and firm trading positions through ordinary course borrowings at floating interest rates from various banks on a demand basis and securities lending, with company-owned and client securities pledged as collateral. Changes in securities market volumes, related client borrowing demands, underwriting activity, and levels of securities inventory affect the amount of our financing requirements.

The capital and credit markets have been experiencing volatility and disruption since early 2008, and reached unprecedented levels during the first quarter of 2009. In some cases, the markets have produced downward pressure on stock prices and credit availability for certain issuers without regard to those issuers' underlying financial strength. Despite recent improvements in market conditions, if market disruption and volatility return to the unprecedented levels reached in early 2009 or worsen, there can be no assurance that we will not experience an adverse effect, which may be material to our business, financial condition and results of operations and affect our ability to access capital.

Our liquidity requirements may change in the event we need to raise more funds than anticipated to increase inventory positions, support more rapid expansion, develop new or enhanced services and products, acquire technologies, or respond to other unanticipated liquidity requirements. We rely exclusively on financing activities and distributions from our subsidiaries for funds to implement our business and growth strategies. Net capital rules or the borrowing arrangements of our subsidiaries, as well as the earnings, financial condition, and cash requirements of our subsidiaries, may each limit distributions to us from our subsidiaries.

In the event existing internal and external financial resources do not satisfy our needs, we may have to seek additional outside financing. The availability of outside financing will depend on a variety of factors, such as market conditions, the general availability of credit, the volume of trading activities, the overall availability of credit to the financial services industry, credit ratings, and credit capacity, as well as the possibility that lenders could develop a negative perception of our long-term or short-term financial prospects if we incurred large trading losses or if the level of our business activity decreased due to a market downturn or otherwise. We currently do not have a credit rating, which could adversely affect our liquidity and competitive position by increasing our borrowing costs and limiting access to sources of liquidity that require a credit rating as a condition to providing funds.

Current trends in the global financial markets could cause significant fluctuations in our stock price.

Stock markets in general, and stock prices of financial services firms in particular, including us, have in recent years, and particularly in the latter part of 2008 continuing through the first quarter of 2009, experienced significant price and volume fluctuations. The market price of our common stock may continue to be subject to similar market fluctuations which may be unrelated to our operating performance or prospects, and increased volatility could result in an overall decline in the market price of our common stock. Factors that could significantly impact the volatility of our stock price include:

- developments in our business or in the financial sector generally, including the effect of direct governmental action in the financial markets generally and with respect to financial institutions in particular;
- regulatory changes affecting our operations;
- the operating and securities price performance of companies that investors consider to be comparable to us;
- announcements of strategic developments, acquisitions and other material events by us or our competitors; and
- changes in global financial markets and global economies and general market conditions, such as interest or foreign exchange rates, stock, commodity or asset valuations or volatility.

Significant declines in the market price of our common stock or failure of the market price of our common stock to increase could harm our ability to recruit and retain key employees, including our executives and financial advisors and other key professional employees and those who have joined us from companies we have acquired, reduce our access to debt or equity capital and otherwise harm our business or financial condition. In addition, we may not be able to use our common stock effectively as consideration in connection with future acquisitions.

We face intense competition in our industry.

All aspects of our business and of the financial services industry in general are intensely competitive. We expect competition to continue and intensify in the future. Our business will suffer if we do not compete successfully. We compete on the basis of a number of factors, including the quality of our personnel, the quality and selection of our investment products and services, pricing (such as execution pricing and fee levels), and reputation. Because of market unrest and increased government intervention, the financial services industry has recently undergone significant consolidation, which has further concentrated equity capital and other financial resources in the industry and further increased competition. Many of our competitors use their significantly greater financial capital and scope of operations to offer their customers more products and services, broader research capabilities, access to international markets, and other products and services not currently offered by us.

We compete directly with national full-service broker-dealers, investment banking firms, and commercial banks and, to a lesser extent, with discount brokers and dealers and investment advisors. In addition, we face competition from new entrants into the market and increased use of alternative sales channels by other firms. Domestic commercial banks and investment banking boutique firms have entered the broker-dealer business, and large international banks have begun serving our markets as well. Legislative and regulatory initiatives intended to ease restrictions on the sale of securities and underwriting activities by commercial banks have increased competition. We also compete indirectly for investment assets with insurance companies, real estate firms, hedge funds and others. This increased competition could cause our business to suffer.

The industry of electronic and/or discount brokerage services is continuing to develop. Increased competition from firms using new technology to deliver these products and services may materially and adversely affect our operating results and financial position. Competitors offering internet-based or other electronic brokerage services may have lower costs and offer their customers more attractive pricing and more convenient services than we do. In addition, we anticipate additional competition from underwriters who conduct offerings of securities through electronic distribution channels, bypassing financial intermediaries such as us altogether. These and other competitive pressures may have an adverse affect on our competitive position and, as a result, our operations, financial condition and liquidity.

Regulatory and legal developments could adversely affect our business and financial condition.

The financial services industry is subject to extensive regulation and broker-dealers and investment advisors are subject to regulations covering all aspects of the securities business. We could be subject to civil liability, criminal liability, or sanctions, including revocation of our subsidiaries' registrations as investment advisors or broker-dealers, revocation of the licenses of our financial advisors, censures, fines, or a temporary suspension or permanent bar from conducting business, if we violate such laws or regulations. Any such liability or sanction could have a material adverse effect on our business, financial condition and prospects. Moreover, our independent contractor subsidiaries, CSA and SN Ltd give rise to a potentially higher risk of noncompliance because of the nature of the independent contractor relationships involved.

As a bank holding company, we are subject to regulation by the Federal Reserve. Stifel Bank is subject to regulation by the FDIC. As a result, we are subject to a risk of loss resulting from failure to comply with banking laws. The recent economic and political environment has caused regulators to increase their focus on the regulation of the financial services industry, including introducing proposals for new legislation. We are unable to predict whether any of these proposals will be implemented and in what form, or whether any additional or similar changes to statutes or regulations, including the interpretation or implementation thereof, will occur in the future. Any such action could affect us in substantial and unpredictable ways and could have an adverse effect on our business, financial condition and results of operations. We also may be adversely affected as a result of changes in federal, state or foreign tax laws, or by changes in the interpretation or enforcement of existing laws and regulations. For additional information regarding our regulatory environment and our approach to managing regulatory risk, see Item 1 "Business - Regulation" and Item 7A "Quantitative and Qualitative Disclosures About Market Risk."

Our company and its subsidiaries are named in and subject to various proceedings and claims arising primarily from our securities business activities, including lawsuits, arbitration claims, class actions, and regulatory matters. Some of these claims seek substantial compensatory, punitive, or indeterminate damages. Our company and its subsidiaries are also involved in other reviews, investigations and proceedings by governmental and self-regulatory organizations regarding our business which may result in adverse judgments, settlements, fines, penalties, injunctions and other relief.

The regulatory investigations include inquiries from the SEC, FINRA and several state regulatory authorities requesting information concerning our activities with respect to auction rate securities ("ARS") and in connection with certain investments made by other post-employment benefit ("OPEB") trusts formed by five Southwestern Wisconsin school districts.

In turbulent economic times such as these, the volume of claims and amount of damages sought in litigation and regulatory proceedings against financial institutions has historically increased. These risks include potential liability under securities and other laws for alleged materially false or misleading statements made in connection with securities offerings and other transactions, issues related to the suitability of our investment advice based on our clients' investment objectives, and potential liability for other advice we provide to participants in strategic transactions. Legal actions brought against us may result in judgments, settlements, fines, penalties or other results, any of which could materially adversely affect our business, financial condition or results of operations, or cause us serious reputational harm.

For a discussion of our legal matters, including ARS and OPEB litigation, and our approach to managing legal risk, see Item 3, "Legal Proceedings" and Item 7A, "Quantitative and Qualitative Disclosures About Market Risk."

Failure to comply with regulatory capital requirements would significantly harm our business.

The SEC requires broker-dealers to maintain adequate regulatory capital in relation to their liabilities and the size of their customer business. These rules require Stifel Nicolaus and CSA, our broker-dealer subsidiaries, to maintain a substantial portion of their assets in cash or highly liquid investments. Failure to maintain the required net capital may subject our broker-dealer subsidiaries to limitations on their activities, or in extreme cases, suspension or revocation of their registration by the SEC and suspension or expulsion by FINRA and other regulatory bodies, and, ultimately, liquidation. Our international subsidiary, SN Ltd, is subject to similar limitations under applicable laws in the United Kingdom. Failure to comply with the net capital rules could have material and adverse consequences, such as:

- limiting our operations that require intensive use of capital, such as underwriting or trading activities; or
- restricting us from withdrawing capital from our subsidiaries, even where our broker-dealer subsidiaries have more than the minimum amount of required capital. This, in turn, could limit our ability to implement our business and growth strategies, pay interest on and repay the principal of our debt and/or repurchase our shares.

In addition, a change in the net capital rules or the imposition of new rules affecting the scope, coverage, calculation, or amount of net capital requirements, or a significant operating loss or any large charge against net capital, could have similar adverse effects. In addition, as a bank holding company, we and our bank subsidiary are subject to various regulatory requirements administered by the federal banking agencies, including capital adequacy requirements pursuant to which we and our bank subsidiary must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. See Item 1 "Business - Regulation" for additional information regarding our regulatory environment.

We have experienced significant pricing pressure in areas of our business, which may impair our revenues and profitability.

In recent years, our business has experienced significant pricing pressures on trading margins and commissions in fixed income and equity trading. In the fixed income market, regulatory requirements have resulted in greater price transparency, leading to increased price competition and decreased trading margins. In the equity market, we have experienced increased pricing pressure from institutional clients to reduce commissions, and this pressure has been augmented by the increased use of electronic and direct market access trading, which has created additional competitive downward pressure on trading margins. The trend towards using alternative trading systems is continuing to grow, which may result in decreased commission and trading revenue, reduce our participation in the trading markets and our ability to access market information, and lead to the creation of new and stronger competitors. Institutional clients also have pressured financial services firms to alter "soft dollar" practices under which brokerage firms bundle the cost of trade execution with research products and services. Some institutions are entering into arrangements that separate (or "unbundle") payments for research products or services from sales commissions. These arrangements have increased the competitive pressures on sales commissions and have affected the value our clients place on high-quality research. Additional pressure on sales and trading revenue may impair the profitability of our business. Moreover, our inability to reach agreement regarding the terms of unbundling arrangements with institutional clients who are actively seeking such arrangements could result in the loss of those clients, which would likely reduce our institutional commissions. We believe that price competition and pricing pressures in these and other areas will continue as institutional investors continue to reduce the amounts they are willing to pay, including by reducing the number of brokerage firms they use, and some of our competitors seek to obtain market share by reducing fees, commissions or margins.

Our underwriting and market-making activities place our capital at risk.

We may incur losses and be subject to reputational harm to the extent that, for any reason, we are unable to sell securities we purchased as an underwriter at the anticipated price levels. As an underwriter, we also are subject to heightened standards regarding liability for material misstatements or omissions in prospectuses and other offering documents relating to offerings we underwrite. As a market maker, we may own large positions in specific securities, and these undiversified holdings concentrate the risk of market fluctuations and may result in greater losses than would be the case if our holdings were more diversified.

Our ability to attract, develop and retain highly skilled and productive employees is critical to the success of our business.

Our people are our most valuable asset. Our ability to develop and retain our client base and to obtain investment banking and advisory engagements depends upon the reputation, judgment, business generation capabilities and project execution skills of highly skilled and often highly specialized employees, including our executive officers. The unexpected loss of services of any of these key employees and executive officers, or the inability to recruit and retain highly qualified personnel in the future, could have an adverse effect on our business and results of operations.

Financial advisors typically take their clients with them when they leave us to work for a competitor. From time to time, in addition to financial advisors, we have lost equity research, investment banking, public finance, institutional sales and trading professionals, and in some cases, clients, to our competitors.

Competition for personnel within the financial services industry is intense. The cost of retaining skilled professionals in the financial services industry has escalated considerably, as competition for these professionals has intensified. Employers in the industry are increasingly offering guaranteed contracts, upfront payments, and increased compensation. These can be important factors in a current employee's decision to leave us as well as a prospective employee's decision to join us. As competition for skilled professionals in the industry increases, we may have to devote more significant resources to attracting and retaining qualified personnel. In particular, our financial results may be adversely affected by the amortization costs incurred by us in connection with the upfront loans we offer to financial advisors.

Moreover, companies in our industry whose employees accept positions with competitors frequently claim that those competitors have engaged in unfair hiring practices. We are currently subject to several such claims and may be subject to additional claims in the future as we seek to hire qualified personnel, some of whom may currently be working for our competitors. Some of these claims may result in material litigation. We could incur substantial costs in defending ourselves against these claims, regardless of their merits. Such claims could also discourage potential employees who currently work for our competitors from joining us.

We may recruit financial advisors, make strategic acquisitions of businesses, or divest or exit existing businesses, which could cause us to incur unforeseen expenses and have disruptive effects on our business and may strain our resources.

Our growth strategies have included, and will continue to include, the recruitment of financial advisors and strategic acquisitions. Since December 2005, we have completed six acquisitions: LM Capital Markets in 2005, the private client business of MJSK in 2006, Ryan Beck and First Service in 2007, Butler Wick in 2008 and certain branches from the UBS Wealth Management Americas branch network in 2009. These acquisitions or any acquisition that we determine to pursue will be accompanied by a number of risks. The growth of our business and expansion of our client base has strained, and may continue to strain, our management and administrative resources. Costs or difficulties relating to such transactions, including integration of financial advisors, and other employees, products and services, technology systems, accounting systems and management controls, may be greater than expected. Unless offset by a growth of revenues, the costs associated with these investments will reduce our operating margins. In addition, because, as noted above, financial professionals typically take their clients with them when they leave, if key employees or other senior management personnel of the businesses we have acquired determine that they do not wish to remain with our company over the long term or at all, we would not inherit portions of the client base of those businesses, which would reduce the value of those acquisitions to us.

In addition to past growth, we cannot assure investors that we will be able to manage our future growth successfully. The inability to do so could have a material adverse effect on our business, financial condition and results of operations. After we announce or complete any given acquisition in the future, our share price could decline if investors view the transaction as too costly or unlikely to improve our competitive position. We may be unable to retain key personnel after any such transaction, and the transaction may impair relationships with customers and business partners. These difficulties could disrupt our ongoing business, increase our expenses and adversely affect our operating results and financial condition. In addition, we may be unable to achieve anticipated benefits and synergies from any such transaction as fully as expected or within the expected time frame. Divestitures or elimination of existing businesses or products could have similar effects.

Moreover, to the extent we pursue increased expansion to different geographic markets or grow generally through additional strategic acquisitions, we cannot assure you that we will identify suitable acquisition candidates, that acquisitions will be completed on acceptable terms or that we will be able to successfully integrate the operations of any acquired business into our existing business. Such acquisitions could be of significant size and involve firms located in regions of the United States where we do not currently operate, or internationally. To acquire and integrate a separate organization would further divert management attention from other business activities. This diversion, together with other difficulties we may encounter in integrating an acquired business, could have a material adverse effect on our business, financial condition and results of operations. In addition, we may need to borrow money to finance acquisitions, which would increase our leverage. Such funds might not be available on terms as favorable to us as our current borrowing terms or at all.

The rapid growth of Stifel Bank may expose us to increased operational risk, credit risk and sensitivity to market interest rates along with increased regulation, examinations and supervision by regulators.

We have experienced rapid growth in the balance sheet of Stifel Bank. The increase is primarily attributable to the growth in securities-based loans and deposits as a result of the UBS acquisition. Although our stock-secured loans are collateralized by assets held in brokerage accounts, we are exposed to some credit and operational risk associated with these loans. We describe some of the integration related operational risks associated with our recent acquisitions above, which includes many of the same risks related to the growth of Stifel Bank. With the increase in deposits, and resulting liquidity, we have been able to expand our investment portfolio, primarily with government agency securities. In addition, Stifel Bank has significantly grown its mortgage banking business. Although we believe we have adequate underwriting policies in place, there are inherent risks associated with the mortgage banking business. For further discussion of our segments, including our Stifel Bank reporting unit, see Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations - Segment Analysis."

As a result of the high percentage of our assets and liabilities that are in the form of interest-bearing or interest-related instruments, we are more sensitive to changes in interest rates, in the shape of the yield curve or in relative spreads between market interest rates.

The monetary, tax and other policies of the government and its agencies, including the Federal Reserve, have a significant impact on interest rates and overall financial market performance. An important function of the Federal Reserve is to regulate the national supply of bank credit and market interest rates. The actions of the Federal Reserve influence the rates of interest that we charge on loans and that we pay on borrowings and interest-bearing deposits, which may also affect the value of our on-balance sheet and off-balance sheet financial instruments. We cannot predict the nature or timing of future changes in monetary, tax and other policies or the effect that they may have on our activities and results of operations.

In addition, Stifel Bank is heavily regulated at the state and federal level. This regulation is to protect depositors, federal deposit insurance funds, consumers and the banking system as a whole, not our stockholders. Federal and state regulations can significantly restrict our businesses, and we are subject to various regulatory actions which could include fines, penalties or other sanctions for violations of laws and regulatory rules if we are ultimately found to be out of compliance.

Our risk management policies and procedures may leave us exposed to unidentified or unanticipated risk.

We seek to manage, monitor and control our operational, legal and regulatory risk through operational and compliance reporting systems, internal controls, management review processes and other mechanisms; however, there can be no assurance that our procedures will be fully effective. Further, our risk management methods are based on an evaluation of information regarding markets, clients and other matters that are based on assumptions that may no longer be accurate. In addition, we have undergone significant growth in recent years. A failure to adequately manage our growth, or to effectively manage our risk, could materially and adversely affect our business and financial condition. We must also address potential conflicts of interest that arise in our business. We have procedures and controls in place to address conflicts of interest, but identifying and managing potential conflicts of interest can be complex and difficult and our reputation could be damaged if we fail, or appear to fail, to deal appropriately with conflicts of interest. See Item 7A, "Quantitative and Qualitative Disclosures About Market Risk" for more information on how we monitor and manage market and certain other risks.

We continually encounter technological change, and we may have fewer resources than many of our competitors to continue to invest in technological improvements, which are important to attract and retain financial advisors.

We rely extensively on electronic data processing and communications systems. Adapting or developing our technology systems to meet new regulatory requirements, client needs and industry demands is critical for our business. Introduction of new technologies present new challenges on a regular basis. In addition to better serving our clients, the effective use of technology increases efficiency and enables our company to reduce costs. Our future success will depend in part upon our ability to successfully maintain and upgrade our systems and our ability to address the needs of our clients by using technology to provide products and services that will satisfy their demands for convenience, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements. We cannot assure you that we will be able to effectively upgrade our systems, implement new technology-driven products and services or be successful in marketing these products and services to our clients.

Our operations and infrastructure and those of the service providers upon which we rely may malfunction or fail.

Our business is highly dependent on our ability to process, on a daily basis, a large number of transactions across diverse markets, and the transactions we process have become increasingly complex. The inability of our systems to accommodate an increasing volume of transactions could also constrain our ability to expand our businesses. If any of these systems do not operate properly or are disabled, or if there are other shortcomings or failures in our internal processes, people or systems, we could suffer impairments, financial loss, a disruption of our businesses, liability to clients, regulatory intervention or reputational damage.

We have outsourced certain aspects of our technology infrastructure, including trade processing, data centers, disaster recovery systems, and wide area networks, as well as market data servers, which constantly broadcast news, quotes, analytics, and other important information to the desktop computers of our financial advisors. We contract with other vendors to produce, batch, and mail our confirmations and customer reports. We are dependent on our technology providers to manage and monitor those functions. A disruption of any of the outsourced services would be out of our control and could negatively impact our business. We have experienced disruptions on occasion, none of which has been material to our operations and results. However, there can be no guarantee that future disruptions with these providers will not occur.

We also face the risk of operational failure, termination or capacity constraints of any of the clearing agents, exchanges, clearing houses or other financial intermediaries we use to facilitate our securities transactions. Any such failure or termination could adversely affect our ability to effect transactions and to manage our exposure to risk.

Our operations also rely on the secure processing, storage and transmission of confidential and other information in our computer systems and networks. Although we take protective measures and endeavor to modify them as circumstances warrant, our computer systems, software and networks may be vulnerable to unauthorized access, computer viruses or other malicious code and other events that could have a security impact. If one or more of such events occur, this could jeopardize our or our clients' or counterparties' confidential and other information processed, stored in and transmitted through our computer systems and networks, or otherwise cause interruptions or malfunctions in our, our clients', our counterparties' or third parties' operations which could result in significant losses or reputational damage. We may be required to expend significant additional resources to modify our protective measures, to investigate and remediate vulnerabilities or other exposures or to make required notifications, and we may be subject to litigation and financial losses that are either not insured or not fully covered through any insurance maintained by us.

We may suffer losses if our reputation is harmed.

Our ability to attract and retain customers and employees may be adversely affected to the extent our reputation is damaged. If we fail to deal with, or appear to fail to deal with, various issues that may give rise to reputational risk, we could harm our business prospects. These issues include, but are not limited to, appropriately dealing with potential conflicts of interest, legal and regulatory requirements, ethical issues, money-laundering, privacy, record-keeping, sales and trading practices, and the proper identification of the legal, reputational, credit, liquidity and market risks inherent in our products. Failure to appropriately address these issues could also give rise to additional legal risk to us, which could, in turn, increase the size and number of claims and damages asserted against us or subject us to regulatory enforcement actions, fines, and penalties.

Our current stockholders may experience dilution in their holdings if we issue additional shares of common stock as a result of future offerings or acquisitions where we use our common stock.

As part of our business strategy, we may continue to seek opportunities for growth through strategic acquisitions, in which we may consider issuing equity securities as part of the consideration. Additionally, we may obtain additional capital through the public or private sale of equity securities. If we sell equity securities, the value of our common stock could experience dilution. Furthermore, these securities could have rights, preferences and privileges more favorable than those of the common stock. Moreover, if we issue additional shares of common stock in connection with future acquisitions or as a result of a financing, investors ownership interest in our company will be diluted.

The issuance of any additional shares of common stock or securities convertible into or exchangeable for common stock or that represent the right to receive common stock, or the exercise of such securities, could be substantially dilutive to stockholders of our common stock. Holders of our shares of common stock have no preemptive rights that entitle holders to purchase their pro rata share of any offering of shares of any class or series and, therefore, such sales or offerings could result in increased dilution to our stockholders. The market price of our common stock could decline as a result of sales of shares of our common stock or securities convertible into or exchangeable for common stock.

We are subject to an increased risk of legal proceedings, which may result in significant losses to us that we cannot recover. Claimants in these proceedings may be customers, employees, or regulatory agencies, among others, seeking damages for mistakes, errors, negligence or acts of fraud by our employees.

Many aspects of our business subject us to substantial risks of potential liability to customers and to regulatory enforcement proceedings by state and federal regulators. Participants in the financial services industry face an increasing amount of litigation and arbitration proceedings. Dissatisfied clients regularly make claims against broker-dealers and their employees for, among others, negligence, fraud, unauthorized trading, suitability, churning, failure to supervise, breach of fiduciary duty, employee errors, intentional misconduct, unauthorized transactions by financial advisors or traders, improper recruiting activity, and failures in the processing of securities transactions. These types of claims expose us to the risk of significant loss. Acts of fraud are difficult to detect and deter, and while we believe our supervisory procedures are reasonably designed to detect and prevent violations of applicable laws, rules and regulations, we cannot assure investors that our risk management procedures and controls will prevent losses from fraudulent activity. In our role as underwriter and selling agent, we may be liable if there are material misstatements or omissions of material information in prospectuses and other communications regarding underwritten offerings of securities. At any point in time, the aggregate amount of existing claims against us could be material. While we do not expect the outcome of any existing claims against us to have a material adverse impact on our business, financial condition, or results of operations, we cannot assure you that these types of proceedings will not materially and adversely affect our company. We do not carry insurance that would cover payments regarding these liabilities, with the exception of fidelity coverage with respect to certain fraudulent acts of our employees. In addition, our by-laws provide for the indemnification of our officers, directors, and employees to the maximum extent permitted under Delaware law. In the future, we may be the subject of indemnification assertions under these documents by our officers, directors or employees who have or may become defendants in litigation. These claims for indemnification may subject us to substantial risks of potential liability. For a discussion of our legal matters (including ARS and OPBE litigation) and our approach to managing legal risk, see Item 3, "Legal Proceedings."

In addition to the foregoing financial costs and risks associated with potential liability, the costs of defending litigation and claims has increased over the last several years. The amount of outside attorneys' fees incurred in connection with the defense of litigation and claims could be substantial and might materially and adversely affect our results of operations as such fees occur. Securities class action litigation in particular is highly complex and can extend for a protracted period of time, thereby substantially increasing the costs incurred to resolve this litigation.

Misconduct by our employees or by the employees of our business partners could harm us and is difficult to detect and prevent.

There have been a number of highly publicized cases involving fraud or other misconduct by employees in the financial services industry in recent years, and we run the risk that employee misconduct could occur at our company. For example, misconduct could involve the improper use or disclosure of confidential information, which could result in regulatory sanctions and serious reputational or financial harm. It is not always possible to deter misconduct and the precautions we take to detect and prevent this activity may not be effective in all cases. Our ability to detect and prevent misconduct by entities with which we do business may be even more limited. We may suffer reputational harm for any misconduct by our employees or those entities with which we do business.

Provisions in our certificate of incorporation and bylaws and of Delaware law may prevent or delay an acquisition of our company, which could decrease the market value of our common stock.

Our articles of incorporation and bylaws and Delaware law contain provisions that are intended to deter abusive takeover tactics by making them unacceptably expensive to prospective acquirors and to encourage prospective acquirors to negotiate with our board of directors rather than to attempt a hostile takeover. These provisions include giving the board of directors authority to issue, without further action or approval of the stockholders, additional shares of common stock to the public, thereby increasing the number of shares that would have to be acquired to effect a change in control of our company. Delaware law also imposes some restrictions on mergers and other business combinations between us and any holder of 15% or more of our outstanding common stock. We believe these provisions protect our stockholders from coercive or otherwise unfair takeover tactics by requiring potential acquirors to negotiate with our board of directors and by providing our board of directors with more time to assess any acquisition proposal. These provisions are not intended to make our company immune from takeovers. However, these provisions apply even if the offer may be considered beneficial by some stockholders and could delay or prevent an acquisition that our board of directors determines is not in the best interests of our company and our stockholders.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The following table sets forth the location, approximate square footage and use of each of the principal properties used by our company during the year ended December 31, 2009. On December 30, 2009, Stifel Bank entered into a Branch Purchase and Assumption Agreement providing for the sale of a branch office. The transaction, which is subject to regulatory approvals and certain closing conditions, is expected to be completed during the first quarter of 2010. See Note 4 of the Notes to Consolidated Financial Statements for further information regarding our sale of the branch office. We lease or sublease all of these properties with the exception of the Stifel Bank branch, where we own the building and lease the land. All properties are leased under operating leases. Such leases expire at various times through 2020, with the exception of the land lease, which with the exercise of an existing option expires in 2014. The annual base rent expense (including operating expenses, property taxes and assessments, as applicable) for all facilities is currently \$43.5 million and is subject to annual adjustments as well as changes in interest rates.

Location

Approximate Square Footage

Use

One Financial Plaza
 501 North Broadway
 St. Louis, Missouri 63102

127,000

Headquarters and administrative offices of Stifel Nicolaus and Global Wealth Management operations (including CSA).

One South Street
 Baltimore, Maryland 21202

76,000

Capital Markets operations and Administrative offices.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

237 Park Avenue
New York, New York 10017

60,000

Global Wealth Management and Capital Markets operations.

18 Columbia Turnpike Florham Park, New Jersey 07932

50,000

Global Wealth Management and Capital Markets operations.

We also maintain operations in 294 branch offices in various locations throughout the United States and in certain foreign countries, primarily for our broker-dealer business. Our Global Wealth Management segment leases 272 offices which are primarily concentrated in the Midwest and Mid-Atlantic regions with a growing presence in the Northeast, Southeast and Western United States. Our Capital Markets segment leases 20 offices in the United States and certain foreign locations. In addition, Stifel Bank leases two locations in the St. Louis area for its administrative offices and branch operations. We believe that, at the present time, the facilities are suitable and adequate to meet our needs and that such facilities have sufficient productive capacity and are appropriately utilized.

Leases for the branch offices of CSA, our independent contractor firm, are the responsibility of the respective independent financial advisors. The Geneva and Madrid Capital Markets branch offices are the responsibility of the respective consultancies associated with SN Ltd.

See Note 18 of the Notes to Consolidated Financial Statements for further information regarding our lease obligations.

ITEM 3. LEGAL PROCEEDINGS

Our company and its subsidiaries are named in and subject to various proceedings and claims arising primarily from our securities business activities, including lawsuits, arbitration claims, class actions, and regulatory matters. Some of these claims seek substantial compensatory, punitive, or indeterminate damages. Our company and its subsidiaries are also involved in other reviews, investigations and proceedings by governmental and self-regulatory organizations regarding our business, which may result in adverse judgments, settlements, fines, penalties, injunctions and other relief. We are contesting the allegations in these claims, and we believe that there are meritorious defenses in each of these lawsuits, arbitrations and regulatory investigations. In view of the number and diversity of claims against the company, the number of jurisdictions in which litigation is pending and the inherent difficulty of predicting the outcome of litigation and other claims, we cannot state with certainty what the eventual outcome of pending litigation or other claims will be. In our opinion, based on currently available information, review with outside legal counsel, and consideration of amounts provided for in our consolidated financial statements with respect to these matters, the ultimate resolution of these matters will not have a material adverse impact on our financial position. However, resolution of one or more of these matters may have a material effect on the results of operations in any future period, depending upon the ultimate resolution of those matters and depending upon the level of income for such period.

The regulatory investigations include inquiries from the SEC, FINRA and several state regulatory authorities requesting information concerning our activities with respect to auction rate securities ("ARS"), and inquiries from the SEC and a state regulatory authority requesting information relating to our role in investments made by five Southeastern Wisconsin school districts (the "school districts") in transactions involving collateralized debt obligations ("CDOs"). We intend to cooperate fully with the SEC, FINRA and the several states in these investigations.

On or about December 28, 2009, an agreement in principle was reached between the State of Missouri, the State of Indiana, the State of Colorado and with an association of other State securities regulatory authorities related to previously disclosed ARS matters. The agreement provided, among other things: for the dismissal with prejudice of all actions filed against Stifel Nicolaus and its agents; for the modification of the previously disclosed ARS repurchase offer; for the payment of: five hundred and twenty five thousand dollars for fines and penalties to state securities regulatory authorities; two hundred and fifty thousand dollars to the State of Missouri for costs, expenses and other payments; twenty five thousand dollars to the State of Indiana for costs of investigation; for the retention of an outside consultant not unacceptable to the Missouri and Indiana Securities Commissioners concerning Stifel Nicolaus' Supervisory Policies and Procedures regarding certain types of investment products; and, subject to applicable regulatory requirements and limitations, for Stifel Nicolaus to cooperate with its bank affiliate to use its best efforts to make no net cost loans to Eligible ARS investors, provided such investors have a demonstrated need for liquidity.

As part of the modified ARS repurchase offer we have accelerated the previously disclosed repurchase plan. The second repurchase from Eligible ARS investors of the greater of 10% or twenty five thousand dollars of Eligible ARS, originally planned for June 30, 2010, was completed in January 2010. We will follow up with similar repurchases in December 2010 and December 2011. The accelerated plan exceeds the initial target date for completing the voluntary repurchase program - June 2012 - by six months. A supplemental repurchase will be made of any Eligible ARS remaining after the one in December 2010 for Eligible ARS investors who held ARS totaling one hundred and fifty thousand dollars or less as of January 1, 2009.

We are named in a civil lawsuit filed in the United States District Court for the Eastern District of Missouri (the "Missouri Federal Court") on August 8, 2008 seeking class action status for investors who purchased and continue to hold ARS offered for sale between June 11, 2003 and February 13, 2008, the date when most auctions began to fail and the auction market froze, which alleges misrepresentation about the investment characteristics of ARS and the auction markets (the "ARS Class Action"). We believe that, based upon currently available information and review with outside counsel, we have meritorious defenses to this lawsuit, and intend to vigorously defend all claims asserted therein. Furthermore, approximately 97% of the Eligible ARS investors have agreed to participate in the ARS repurchase offer.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

We are also named in a civil lawsuit filed in the Circuit Court of Milwaukee, Wisconsin (the "Wisconsin State Court") on September 29, 2008. The lawsuit has been filed against our company and Stifel Nicolaus, Royal Bank of Canada Europe Ltd. ("RBC") and certain other RBC entities (collectively the "Defendants") by the school districts and the individual trustees for other post-employment benefit ("OPEB") trusts established by those school districts (the "Plaintiffs"). The suit was removed to the United States District Court for the Eastern District of Wisconsin (the "Wisconsin Federal Court") on October 31, 2008, which remanded the case to the Wisconsin State Court on April 10, 2009.

The suit arises out of the purchase of certain CDOs by the OPEB trusts. The RBC entities structured and served as "arranger" for the CDOs. We served as placement agent/broker in connection with the OPEB trusts' purchase of the investments. The total amount of the investments made by the OPEB trusts was \$200.0 million. Plaintiffs assert that the school districts contributed \$37.5 million to the OPEB trusts to purchase the investments. The balance of \$162.5 million used to purchase the investments was borrowed by the OPEB trusts from Depfa Bank. The recourse of the lender is each of the OPEB trusts' respective assets and the moral obligations of each school district. The legal claims asserted include violation of the Wisconsin Securities Act, fraud and negligence. The lawsuit seeks equitable relief, unspecified compensatory damages, treble damages, punitive damages and attorney's fees and costs. The Plaintiffs claim that the RBC entities and our company either made misrepresentations or failed to disclose material facts in connection with the sale of the CDOs in violation of the Wisconsin Securities Act. We believe the Plaintiffs reviewed and understood the relevant offering materials and that the investments were suitable based upon, among other things, our receipt of written acknowledgement of risks from each of the Plaintiffs. The Wisconsin State Court recently denied the Defendants' motions to dismiss, and the Defendants will formally respond to the allegations of the Second Amended Complaint. We believe, based upon currently available information and review with outside counsel, that we have meritorious defenses to this lawsuit, and intend to vigorously defend all of the Plaintiffs' claims.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the quarter ended December 31, 2009.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock is traded on the New York Stock Exchange and Chicago Stock Exchange under the symbol "SF." The closing sale price of our common stock as reported on the New York Stock Exchange on February 1, 2010 was \$52.88. As of that date, our common stock was held by approximately 10,000 shareholders. The following table sets forth for the periods indicated the high and low trades for our common stock (as adjusted for the three-for-two stock split in June 2008):

	2009	
	2008	
	High	
	Low	
	High	
	Low	
First quarter		
\$		48.41
\$		29.13

\$	35.02
\$	24.67
Second quarter	
\$	52.33
\$	41.00
\$	39.71
\$	28.12
Third quarter	
\$	57.23
\$	43.43
\$	
	35

	60.61
\$	
	31.56
Fourth quarter	
\$	
	59.54
\$	
	50.76
\$	
	50.00
\$	
	30.42

We did not pay cash dividends during 2009 or 2008 and do not anticipate paying cash dividends in the foreseeable future. The payment of dividends on our common stock is subject to several factors including operating results, financial requirements of our company, and the availability of funds from our subsidiaries. See Note 20 of the Notes to Consolidated Financial Statements for more information on the capital restrictions placed on Stifel Bank and our broker-dealer subsidiaries.

Securities Authorized for Issuance Under Equity Compensation Plans

Information about securities authorized for issuance under our equity compensation plans is contained in Item 12 - "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters."

Issuer Purchases of Equity Securities

There were no unregistered sales of equity securities during the quarter ended December 31, 2009. There were also no purchases made by or on behalf of Stifel Financial Corp. or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934), of our common stock during the quarter ended December 31, 2009.

We have an ongoing authorization, as amended, from the Board of Directors to repurchase our common stock in the open market or in negotiated transactions. In May 2005, our Board of Directors authorized the repurchase of an additional 3,000,000 shares, for a total authorization to repurchase up to 4,500,000 shares. At December 31, 2009, the maximum number of shares that may yet be purchased under this plan was 2,010,831.

Stock Performance Graph

Five-Year Shareholder Return Comparison

The graph below compares the cumulative stockholder return on our common stock with the cumulative total return of a Peer Group Index, the Standard & Poor's 500 Index ("S&P 500") and the Securities Broker-Dealer Index for the five fiscal year period ending December 31, 2009. The AMEX Securities Broker-Dealer Index consists of twelve firms in the brokerage sector. The Broker-Dealer Index does not include our company. The stock price information shown on the graph below is not necessarily indicative of future price performance.

The material in this report is not deemed "filed" with the SEC and is not to be incorporated by reference into any of our filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language in any such filings.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

The following table and graph assume that \$100.00 was invested on December 31, 2004 in our common stock, the Peer Group Index, the S&P 500 Index and the AMEX Securities Broker-Dealer Index, with reinvestment of dividends.

2005

2006

2007

2008

2009

Stifel Financial Corp.

\$

179

\$

187

\$

251

\$

328

\$

39

Peer Group

\$ 110

\$ 149

\$ 150

\$ 103

\$ 138

S&P 500 Index

\$ 105

\$ 122

\$ 40

	128
\$	
	81
\$	
	102
AMEX Securities Broker/Dealer Index	
\$	
	129
\$	
	158
\$	
	136
\$	
	51
\$	
	75
	41

* *Compound annual growth rate.*

The Peer Group Index consists of the following companies that serve the same markets as us and which compete with us in one or more markets:

Oppenheimer Holdings, Inc.

SWS Group, Inc.

Sanders Morris Harris Group Inc.

Stifel Financial Corp.

Raymond James Financial, Inc.

Piper Jaffray Companies

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data (presented in thousands, except per share amounts) is derived from our consolidated financial statements. This data should be read in conjunction with the consolidated financial statements and notes thereto, and with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Year Ended December 31,

2009

2008

2007

2006

2005

Revenues:

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Principal transactions

\$

458,188

\$

293,285

\$

139,248

\$

86,365

\$

44,110

Commissions

345,520

341,090

315,514

199,056

107,976

Investment banking

125,807

83,710

169,413

82,856

55,893

Asset management and service fees

112,706

119,926

101,610

57,713

43,476

Interest

46,860

50,148

59,071

35,804

18,022

Other income

13,789

688

8,234

9,594

533

Total revenues

1,102,870

888,847

793,090

471,388

270,010

Interest expense

12,234

18,510

30,025

19,581

6,275

Net revenues

1,090,636

870,337

763,065

451,807

263,735

Non-interest expenses:

Compensation and benefits

718,115

582,778

543,021

329,703

174,765

Occupancy and equipment rental

89,741

67,984

57,796

30,751

22,625

Communications and office supplies

54,745

45,621

42,355

26,666

12,087

Commissions and floor brokerage

23,416

13,287

9,921

6,388

4,134

Other operating expenses

84,205

68,898

56,126

31,930

17,402

Total non-interest expenses

970,222

778,568

709,219

425,438

231,013

Income before income tax expense

120,414

91,769

53,846

57

26,369

32,722

Provision for income taxes

44,616

36,267

21,676

10,938

13,078

Net income

\$

75,798

\$

55,502

\$

32,170

\$

15,431

\$

19,644

Earnings per common share:

Basic

\$

2.68

60

\$

2.31

\$

1.48

\$

0.89

\$

1.33

Diluted

\$

2.35

\$

1.98

\$

1.25

\$

0.74

\$

1.04

Weighted average number of common shares outstanding:

Basic

28,297

24,069

21,754

17,269

14,742

Diluted

32,294

28,073

25,723

20,863

18,879

Financial Condition

Total assets

\$

3,167,356

\$

1,558,145

\$

1,499,440

\$

1,084,774

\$

842,001

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Long-term obligations

\$

101,979

\$

106,860

\$

124,242

\$

98,379

\$

97,182

Shareholders' equity

\$

873,446

\$

593,185

\$

424,637

\$

220,265

\$

155,093

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

On May 12, 2008, our Board of Directors approved a 50% stock dividend, in the form of a three-for-two stock split, of our common stock payable on June 12, 2008 to stockholders of record as of May 29, 2008. Per share data, for all periods presented, have been adjusted to give effect to this stock split.

The following items should be considered when comparing the data from year-to-year: 1) the continued expansion of our Private Client Group, including the acquisition of MJSK in December 2006; 2) the acquisition of Ryan Beck in February 2007; 3) the acquisition of FirstService Bank in April 2007; 4) the acquisition of Butler Wick on December 31, 2008 and 5) the acquisition of 56 UBS branches during the third and fourth quarters of 2009. See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations," made part hereof, for a discussion of these items and other items that may affect the comparability of data from year-to-year.

Net income and earnings per share for the years ended December 31, 2009, 2008, 2007 and 2006 includes the impact of the adoption of accounting guidance related to the share-based payments for our incentive stock plans. The stock-based compensation charges recorded in "Compensation and benefits" as a result of the adoption were not present in 2005. See Note 21 of the Notes to Consolidated Financial Statements for information regarding employee incentive plans.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of the financial condition and results of operations of our company should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in this Annual Report on Form 10-K for the year ended December 31, 2009.

Unless otherwise indicated, the terms "we," "us," "our" or "our company" in this report refer to Stifel Financial Corp. and its wholly-owned subsidiaries.

Executive Summary

We operate as a financial services and bank holding company. Through our broker-dealer subsidiaries located throughout the United States, we provide securities brokerage services, including the sale of equities, mutual funds, fixed income products, and insurance, as well as offering banking products to their private clients through Stifel Bank, which provides residential, consumer, and commercial lending, as well as FDIC-insured deposit accounts to customers of our broker-dealer subsidiaries and to the general public. In addition, we provide securities brokerage, trading, and research services to institutions with an emphasis on the sale of equity and fixed income products. We also manage and participate in underwritings for both corporate and public finance, merger and acquisition, and financial advisory services.

We plan to maintain our focus on revenue growth with a continued focus on developing quality relationships with our clients. Within our private client business, our efforts will be focused on recruiting experienced financial advisors with established client relationships. Within our capital markets business, our focus continues to be on providing quality client management and product diversification. In executing our growth strategy, we will continue to look for opportunities to take advantage of the consolidation among middle-market firms, which we believe provides us opportunities in our private client and capital markets businesses.

Our ability to attract and retain highly skilled and productive employees is critical to the success of our business. Accordingly, compensation and benefits comprise the largest component of our expenses, and our performance is dependent upon our ability to attract, develop and retain highly skilled employees who are motivated and committed to providing the highest quality of service and guidance to our clients.

On March 23, 2009, we announced that Stifel Nicolaus had entered into a definitive agreement with UBS Financial Services Inc. ("UBS") to acquire certain specified branches from the UBS Wealth Management Americas branch network. As subsequently amended, we agreed to acquire 56 branches from UBS in four separate closings pursuant to this agreement. We completed the acquisition on October 16, 2009.

As a result of the acquisition, Stifel Nicolaus hired 495 financial advisors and support staff in these branches and successfully converted approximately 144,000 accounts with approximately \$16.2 billion in customer assets, including related securities-based and margin loans of \$207.4 million and \$1.7 billion in money market accounts and FDIC-insured balances to the Stifel Nicolaus platform.

Our overall financial results continue to be highly and directly correlated to the direction and activity levels of the United States equity and fixed income markets, our expansion of the Capital Markets segment, and the continued expansion of our Global Wealth Management segment. Despite the significant volatility in the market during the first half of 2009, we began to see signs of improvement in the capital markets during the third and fourth quarters of 2009. At December 31, 2009, the key indicators of the markets' performance, the Dow Jones Industrial Average, the NASDAQ, and the S&P 500 closed 18.8%, 43.9%, and 23.5%, respectively, higher than their December 31, 2008 closing prices. Since December 31, 2008, we have added 99 private client group offices and 645 financial advisors, including 56 offices and 321 Financial Advisors from UBS and 17 offices and 67 financial advisors from Butler Wick, as part of our ongoing footprint expansion efforts. In addition, we added 64 revenue producing investment bankers, traders, institutional sales staff and lending officers along with 587 branch and home office support staff.

Results for the year ended December 31, 2009

For the year ended December 31, 2009, our net revenues increased 25.3% to a record \$1,090.6 million compared to \$870.3 million during the comparable period in 2008, which represents our fourteenth consecutive annual increase in net revenues. Net income increased 36.6% to a record \$75.8 million for the year ended December 31, 2009 compared to \$55.5 million during the comparable period in 2008.

Our revenue growth was primarily derived from increased principal transactions in institutional fixed income sales and trading resulting from turbulent markets, as institutions rebalanced their portfolios and their exposure to the market. In addition, the market upheaval and the resultant failure of some Wall Street firms have led to increased market share of institutional business. Certain of our business activities, however, were impacted by the particularly challenging equity market conditions, which have led to a decrease in the value of our customers' assets. As a result, commissions, asset management and service fees, and margin interest income decreased during the year ended December 31, 2009 and may diminish in the future. Our business does not produce predictable earnings and is affected by many risk factors such as the global economic and credit slowdown, among others.

In addition to the increased market share that has resulted from market upheaval, we have incurred additional expenses related to increased Securities Investor Protection Corporation ("SIPC") assessments, higher FDIC premiums, including special assessments, increased litigation costs due to the failure of certain financial institutions, and an increase in the cost of growth as we continue our expansion efforts. These additional costs have reduced our profit margins and may continue to in the future if our revenue growth does not absorb the additional costs of operating in the current environment.

On December 28, 2009, we announced that Stifel Nicolaus had reached an agreement between the State of Missouri, the State of Indiana, the State of Colorado and with an association of other State securities regulatory authorities regarding the repurchase of ARS from Eligible ARS investors. As part of the modified ARS repurchase offer we have accelerated the previously announced repurchase plan. We have agreed to repurchase ARS from Eligible ARS investors in four phases starting in January 2010 and ending on December 31, 2011. During January 2010, we repurchased at par ARS of \$21.2 million. At January 31, 2010, we estimate that our retail clients held \$103.1 million of eligible ARS after issuer redemptions of \$23.5 million and Stifel repurchases of \$81.2 million. See Item 3, "Legal Proceedings," in Part I of this report for further details regarding ARS claims.

External Factors Impacting our Business

We are currently operating in a challenging environment: a recession and financial services industry issues related to credit quality, auction rate securities and liquidity continue to negatively impact activity levels. Concerns regarding future economic growth and corporate earnings created challenging conditions for the equity markets, which experienced broad-based declines, with equity indices starting to trend higher at the end of 2009. Fixed income credit markets experienced high levels of volatility, though there were signs of improvement in credit market liquidity at the end of the third quarter. The impact of these events marked a challenging environment for investment banking businesses with continued limited opportunities to distribute securities in the equity and debt capital markets.

Performance in the financial services industry in which we operate is highly correlated to the overall strength of economic conditions and financial market activity. Overall market conditions are a product of many factors, which are beyond our control and mostly unpredictable. These factors may affect the financial decisions made by investors, including their level of participation in the financial markets. In turn, these decisions may affect our business results. With respect to financial market activity, our profitability is sensitive to a variety of factors, including the demand for investment banking services as reflected by the number and size of equity and debt financings and merger and acquisition transactions, the volatility of the equity and fixed income markets, the level and shape of various yield curves, the volume and value of trading in securities, and the value of our customers' assets under management.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Although we do not engage in significant proprietary trading for our own account, the inventory of securities held to facilitate customer trades and our market making activities are sensitive to market movements. We do not have any significant direct exposure to the sub-prime market, but are subject to market fluctuations resulting from news and corporate events in the sub-prime mortgage markets, associated write-downs by other financial services firms and interest rate fluctuations. Stock prices for companies in this industry, including Stifel Financial Corp., have been volatile as a result of reactions to the global credit crisis and the continued volatility in the financial services industry. We will continue to monitor our market capitalization and review for potential goodwill asset impairment losses if events or changes in circumstances occur that would more likely than not reduce the fair value of the asset below its carrying amount.

In connection with ARS, our broker-dealer subsidiaries have been subject to ongoing investigations, which include inquiries from the SEC, FINRA and several state regulatory agencies, with which we are cooperating fully. We are also named in a class action lawsuit similar to those filed against a number of brokerage firms alleging various securities law violations, which we are vigorously defending. We are, in conjunction with other industry participants actively seeking a solution to ARS' illiquidity. See Item 3, "Legal Proceedings," for further details regarding ARS investigations and claims.

RESULTS OF OPERATIONS

The following table presents consolidated financial information for the periods indicated (*in thousands, except percentages*):

For the Year Ended December 31,

**Percentage
Change**

**As a Percentage of
Net Revenues
for the Year Ended
December 31,**

2009

2008

2007

2009 vs. 2008

2008 vs. 2007

2009

2008

2007

Revenues:

Principal transactions

\$

	458,188
\$	
	293,285
\$	
	139,248
	56.2
%	
	110.6
%	
	42.0
%	
	33.7
%	
	18.3
%	
Commissions	

345,520

341,090

315,514

1.3

8.1

31.7

39.2

41.3

Investment banking

125,807

83,710

169,413

50.3

76

	(50.6)
)	
	11.5
	9.6
	22.2
Asset management and service fees	
	112,706
	119,926
	101,610
	(6.0)
)	
	18.0
	10.3
	77

	13.8
	13.3
Interest	
	46,860
	50,148
	59,071
	(6.6)
)	
	(15.1)
)	
	4.3
	5.7
	7.7
Other income	
	78

	13,789
	688
	8,234
	*
)	(91.6)
	1.3
	0.1
	1.1
Total revenues	1,102,870

888,847

793,090

24.1

12.1

101.1

102.1

103.9

Interest expense

12,234

18,510

30,025

80

	(33.9)
)	
	(38.4)
)	
	1.1
	2.1
	3.9
Net revenues	
	1,090,636
	870,337
	763,065
	25.3
	14.1
	81

100.0

100.0

100.0

Non-interest expenses:

Compensation and benefits

718,115

582,778

543,021

23.2

7.3

65.8

67.0

71.2

Occupancy and equipment rental

89,741

67,984

84

	57,796
	32.0
	17.6
	8.2
	7.8
	7.6
Communication and office supplies	
	54,745
	45,621
	42,355
	20.0
	85

	7.7
	5.0
	5.2
	5.6
Commissions and floor brokerage	
	23,416
	13,287
	9,921
	76.2
	33.9
	2.2
	86

	1.5
	1.3
Other operating expenses	
	84,205
	68,898
	56,126
	22.2
	22.8
	7.8
	7.9
	7.4
	87

Total non-interest expenses

970,222

778,568

709,219

24.6

9.8

89.0

89.4

93.1

Income before income taxes

120,414

91,769

53,846

31.2

70.4

11.0

10.6

6.9

Provision for income taxes

44,616

36,267

21,676

23.0

67.3

90

	4.1
	4.2
	2.8
Net income	
\$	75,798
\$	55,502
\$	32,170
%	36.6
%	72.5
%	6.9
%	6.4
	91

%

4.1

%

* Percentage not meaningful.

For the year ended December 31, 2009, net revenues (total revenues less interest expense) increased \$220.3 million to a record \$1,090.6 million; a 25.3% increase over the \$870.3 million recorded for the year ended December 31, 2008, which represents our fourteenth consecutive annual increase in net revenues. Net income increased 36.6% to a record \$75.8 million for the year ended December 31, 2009 compared to \$55.5 million during the comparable period in 2008.

NET REVENUES

The following table presents consolidated net revenues for the periods indicated (*in thousands, except percentages*):

For the Year Ended December 31,

Percentage Change

2009

2008

2007

2009 vs. 2008

2008 vs. 2007

Revenues:

Principal transactions

\$

458,188

\$

293,285

\$

139,248

%

56.2

%

110.6

Commissions

345,520

341,090

315,514

1.3

8.1

Investment banking:

Capital raising

76,563

45,205

95,084

69.4

(52.5

)

Advisory

49,244

38,505

74,329

27.9

(48.2

)

125,807

83,710

169,413

50.3

(50.6

)

Asset management and service fees

112,706

100

	119,926
	101,610
)	(6.0
	18.0
Net interest	
	34,626
	31,638
	29,046
	9.4
	101

	8.9
Other income	
	13,789
	688
	8,234
	*
	(91.6)
)	
Total net revenues	
\$	1,090,636
\$	870,337
	102

\$

763,065

%

25.3

%

14.1

* Percentage is not meaningful.

Year Ended December 31, 2009 Compared with Year Ended December 31, 2008

Except as noted in the following discussion of variances, the underlying reasons for the increase in revenue can be attributed principally to the increased number of private client group offices and financial advisors in our Global Wealth Management segment, the increased number of revenue producers in our Capital Markets segment, the acquisition of Butler Wick on December 31, 2008, and the closing of the UBS acquisition during the third and fourth quarters of 2009. Butler Wick's results of operations are included in our results of operations prospectively from December 31, 2008, the date of acquisition. The results of operations for the acquired UBS branches are included in our results prospectively from the date of their respective conversion. For the year ended December 31, 2009, these business acquisitions generated net revenues of \$23.0 million and \$27.1 million, respectively.

Principal transactions - For the year ended December 31, 2009, principal transactions revenue increased 56.2% to \$458.2 million from \$293.3 million in the comparable period in 2008. The increase is primarily attributable to increased principal transactions, primarily in corporate debt, over-the-counter ("OTC") equity, mortgage-backed bonds and municipal debt due to turbulent markets and customers returning to traditional fixed income products. The change in the mix from commissions-based revenues to principal transactions revenue has created an increase in our trading inventory levels primarily related to fixed income products.

Commissions - Commission revenues are primarily generated from agency transactions in OTC and listed equity securities, insurance products, options and mutual funds.

For the year ended December 31, 2009, commission revenues increased 1.3% to \$345.5 million from \$341.1 million in the comparable period in 2008. While the equity markets began showing signs of improvement during the second half of 2009, the volatility in capital markets during the first half of 2009 has resulted in modest revenue growth for the year ended December 31, 2009. The continued expansion of our private client group through acquisitions and organic growth has been offset by a decrease in trading volumes, as customers returned to traditional fixed income products.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Investment banking - Investment banking revenues include: (i) capital raising revenues representing fees earned from the underwriting of debt and equity securities, and (ii) strategic advisory fees related to corporate debt and equity offerings, municipal debt offerings, merger and acquisitions, private placements and other investment banking advisory fees.

For the year ended December 31, 2009, investment banking revenues increased 50.3% to \$125.8 million from \$83.7 million in the comparable period in 2008.

Capital raising revenues increased 69.4% to \$76.6 million for the year ended December 31, 2009 from \$45.2 million in the comparable period in 2008. Equity and fixed income capital raising revenues were \$52.6 million and \$19.9 million, respectively, an increase of \$23.8 million, or 82.6%, and \$8.6 million, or 76.2%, respectively, from the comparable period in 2008. During the second half of 2009, capital market conditions continued to build upon the improvement that began in the second quarter for both equity and fixed income, and we raised capital for our clients in a number of successful corporate and public finance underwritings. The significant rebound in equity and fixed income financings during the second half of 2009 was offset by the challenging market conditions that began during the second half of 2008 and continued into the first half of 2009.

Strategic advisory fees increased 27.9% to \$49.2 million for the year ended December 31, 2009 from \$38.5 million in the comparable period in 2008. The increase is primarily attributable to an increase in the number of completed equity transactions and the aggregate transaction value, as well as the average revenue per transaction, over the comparable periods in 2008.

Asset management and service fees - Asset management and service fees include fees for asset-based financial services provided to individuals and institutional clients. Investment advisory fees are charged based on the value of assets in fee-based accounts. Asset management and service fees are affected by changes in the balances of client assets due to market fluctuations and levels of net new client assets.

For the year ended December 31, 2009, asset management and service fee revenues decreased 6.0% to \$112.7 million from \$119.9 million in the comparable period of 2008. The decrease is primarily a result of a reduction in fees for money-fund balances due to the waiving of fees by certain fund managers and lower assets under management as a result of market depreciation, offset by an increase in the number of managed accounts attributable principally to the continued growth of the private client group. See Assets in Fee-based Accounts included in the table in "Results of Operations - Global Wealth Management."

Other income - For the year ended December 31, 2009, other income increased \$13.1 million to \$13.8 million from \$0.7 million during the comparable period in 2008. The increase is primarily attributable to the reduction of investment losses during the year ended December 31, 2009, offset by the recognition of other-than-temporary impairment of \$1.9 million on our held-to-maturity debt security.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Year Ended December 31, 2008 Compared with Year Ended December 31, 2007

Except as noted in the following discussion of variances, the underlying reasons for the increase in revenue can be attributed principally to the acquisitions of Ryan Beck and Stifel Bank in 2007 and the increased number of private client group offices and financial advisors. Ryan Beck's and Stifel Bank's results of operations are included in our results of operations prospectively from their respective dates of acquisition of February 28, 2007 and April 2, 2007. As such, the results of operations for 2007 include only ten months of Ryan Beck's results of operations and nine months of Stifel Bank's results of operations. For the year ended December 31, 2008, Ryan Beck contributed \$187.8 million in net revenues and income before income taxes of \$26.9 million compared to \$180.8 million in net revenues and a loss before income taxes of \$14.3 million for the comparable period in 2007. Stifel Bank contributed \$9.6 million in net revenues and income before income taxes of \$0.6 million for the year ended December 31, 2008 compared to \$4.8 million in net revenues and \$1.0 million in income before income taxes for the comparable period in 2007.

For the year ended December 31, 2008, net revenues (total revenues less interest expense) increased \$107.2 million to a record \$870.3 million; a 14.1% increase over the \$763.1 million recorded for the year ended December 31, 2007. Net income increased 72.5% to a record \$55.5 million for the year ended December 31, 2008 compared to \$32.2 million during the comparable period in 2007.

Principal transactions - For the year ended December 31, 2008, principal transactions revenue increased 110.6% to \$293.3 million from \$139.2 million in the comparable period in 2007. The increase is primarily attributable to increased principal transactions, primarily in corporate debt and mortgage-backed bonds.

Commissions - For the year ended December 31, 2008, commission revenues increased 8.1% to \$341.1 million from \$315.5 million in the comparable period in 2007. The increase is primarily attributable to the aforementioned growth and market volatility leading to increased commissions, principally in OTC stocks.

Investment banking - Investment banking revenues include: (i) capital raising revenues representing fees earned from the underwriting of debt and equity securities, and (ii) strategic advisory fees related to corporate debt and equity offerings, municipal debt offerings, merger and acquisitions, private placements and other investment banking advisory fees.

For the year ended December 31, 2008, investment banking revenues decreased 50.6% to \$83.7 million from \$169.4 million in the comparable period in 2007. The decrease is attributable to the industry-wide decline in common stock offerings and mergers and acquisitions caused by challenging capital market conditions.

Capital raising revenues decreased 52.5% to \$45.2 million for the year ended December 31, 2008 from \$95.1 million in the comparable period in 2007. Equity and fixed income capital raising revenues were \$28.8 million and \$11.3 million, respectively, a decrease of 60.1% and 6.9%, respectively, from the comparable period in 2007.

Strategic advisory fees decreased 48.2% to \$38.5 million for the year ended December 31, 2008 from \$74.3 million in the comparable period in 2007. During the second quarter of 2007, we closed on a significant corporate finance investment banking transaction which contributed \$24.7 million in revenue.

Asset management and service fees - Asset management and service fees include fees for asset-based financial services provided to individuals and institutional clients. Investment advisory fees are charged based on the value of assets in fee-based accounts. Asset management and service fees are affected by changes in the balances of client assets due to market fluctuations and levels of net new client assets.

For the year ended December 31, 2008, asset management and service fee revenues increased 18.0% to \$119.9 million from \$101.6 million in the comparable period of 2007. The increase is primarily attributable to a 10.9% increase in the number of Stifel Nicolaus managed accounts and increased distribution fees for money market funds, principally Federal Deposit Insurance Corporation insured accounts, attributable principally to the Ryan Beck acquisition and the continued growth of the private client group, offset by a 13.4% decrease in the value of assets in fee-based accounts. See Assets in Fee-based Accounts included in the table in "Results of Operations - Global Wealth Management."

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Other income - For the year ended December 31, 2008, other income decreased \$7.5 million to \$0.7 million from \$8.2 million during the comparable period in 2007.

The decrease is primarily attributable to investment losses of \$7.5 million in 2008 as a result of the downturn in the equity markets, and an impairment charge of \$2.4 million on \$4.0 million of asset backed securities held at Stifel Bank recorded during the fourth quarter due to an other-than-temporary decline in value. The losses were offset by a \$6.7 million gain before certain expenses and taxes on the extinguishment of \$12.5 million of 6.78% Stifel Financial Capital Trust IV Cumulative Preferred Securities in December 2008. We issued 142,196 shares of our common stock in exchange for \$12,500 par value of 6.78% Cumulative Trust Preferred Securities, originally offered and sold by Stifel Financial Capital Trust IV. As a result, we extinguished \$12,500 of our debenture to Stifel Financial Capital Trust IV in the fourth quarter of 2008.

NET INTEREST INCOME

The following tables present average balance data and operating interest revenue and expense data, as well as related interest yields for the periods indicated (*in thousands, except rates*):

For the Year Ended

December 31, 2009

December 31, 2008

December 31, 2007

Average Balance

Interest Income/ Expense

Average Interest Rate

Average Balance

Interest Income/ Expense

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Average Interest Rate

Average Balance

Interest Income/ Expense

Average Interest Rate

Interest-earning assets:

Margin balances (Stifel Nicolaus)

\$	290,043
\$	12,499
	4.31
%	
\$	382,536
\$	20,930
	5.47
	112

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

%

\$

332,196

\$

26,565

8.00

%

Interest-earning assets (Stifel Bank) *

\$

687,232

20,283

2.95

%

\$

273,893

15,253

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

	5.57
%	
\$	188,022
	9,400
	6.67
%	
Stock borrow (Stifel Nicolaus)	
\$	32,588
	43
	0.13
%	
\$	61,097
	733
	114

	1.20
%	
\$	
	37,019
	1,342
	3.63
%	
Other (Stifel Nicolaus)	

14,035

13,232

21,764

Total interest revenue

\$

46,860

\$

50,148

\$

59,071

Interest-bearing liabilities:

Short-term borrowings (Stifel Nicolaus)

\$

107,383

\$

1,065

%

0.99

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

\$	132,660
\$	3,021
	2.28
%	
\$	156,778
\$	7,626
	4.86
%	
Interest-bearing liabilities (Stifel Bank) *	
\$	626,754
	4,649
	0.74
%	
	120

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

\$		229,205
		5,434
		2.37
%		
\$		152,284
		5,469
		4.79
%		
Stock loan (Stifel Nicolaus)		
\$		53,110
		570
		1.07
		121

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

%

\$

105,424

2,608

2.47

%

\$

119,590

5,764

4.82

%

Interest-bearing liabilities (Capital Trusts)

\$

82,500

5,488

122

6.65

%

\$

93,019

6,233

6.70

%

\$

99,679

6,849

6.87

%

Other (Stifel Nicolaus)

462

123

1,214

4,317

Total interest expense

\$

12,234

\$

18,510

\$

30,025

Net interest income

\$

34,626

\$

31,638

\$

29,046

* See Distribution of Assets, Liabilities and Shareholders' Equity; Interest Rates and Interest Rate Differential table included in "Results of Operations - Global Wealth Management" for additional information on Stifel Bank's average balances and interest income and expense.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Year Ended December 31, 2009 Compared with Year Ended December 31, 2008

Net interest income - Net interest income is the difference between interest earned on interest-earning assets and interest paid on funding sources. Net interest income is affected by changes in the volume and mix of these assets and liabilities, as well as by fluctuations in interest rates and portfolio management strategies. For the year ended December 31, 2009, net interest income increased 9.4% to \$34.6 million from \$31.6 million in the comparable period in 2008.

For the year ended December 31, 2009, interest revenue decreased 6.6%, or \$3.3 million, to \$46.9 million from \$50.1 million in the comparable period in 2008, principally as a result of an \$8.4 million decrease in interest revenue from customer margin borrowing, offset by increased interest revenues of \$5.0 million from the interest-earning assets of Stifel Bank. The average margin balances of Stifel Nicolaus decreased to \$290.0 million for the year ended December 31, 2009 compared to \$382.5 million during the comparable period in 2008 at weighted average interest rates of 4.31% and 5.47%, respectively. The average interest-earning assets of Stifel Bank increased to \$687.2 million for the year ended December 31, 2009 compared to \$273.9 million during the comparable period in 2008 at weighted average interest rates of 2.95% and 5.57%, respectively.

For the year ended December 31, 2009, interest expense decreased 33.9%, or \$6.3 million, to \$12.2 million from \$18.5 million in the comparable period in 2008. The decrease is due to decreased interest rates charged by banks on lower levels of borrowings to finance customer borrowing and firm inventory, decreased interest rates on stock loan borrowings and the extinguishment of \$12.5 million of 6.78% Stifel Financial Capital Trust IV Cumulative Preferred Securities in November 2008. See "Net Interest Income" table above for more details.

Year Ended December 31, 2008 Compared with Year Ended December 31, 2007

Net interest income - For the year ended December 31, 2008, net interest income increased 8.9%, or \$2.6 million, to \$31.6 million from \$29.0 million in the comparable period in 2007.

For the year ended December 31, 2008, interest revenue decreased 15.1% to \$50.1 million from \$59.1 million in the comparable period in 2007, principally as a result of a \$8.4 million decrease in interest revenues on fixed income inventory held for sale to clients and a \$5.6 million decrease in interest revenue from customer margin borrowing, partially offset by increased interest revenues of \$5.6 million from the interest-earning assets of Stifel Bank. The average margin balances of Stifel Nicolaus increased to \$382.5 million for the year ended December 31, 2008 compared to \$332.2 million during the comparable period in 2007 at weighted average interest rates of 5.47% and 8.00%, respectively. The average interest-earning assets of Stifel Bank increased to \$273.9 million for the year ended December 31, 2008 compared to \$188.0 million during the comparable period in 2007 at weighted average interest rates of 5.57% and 6.67%, respectively.

For the year ended December 31, 2008, interest expense decreased 38.4% to \$18.5 million from \$30.0 million in the comparable period in 2007. The decreases are due to decreased interest rates charged by banks on lower levels of borrowings to finance customer borrowing and firm inventory and decreased interest rates on stock loan borrowings.

NON-INTEREST EXPENSES

The following table presents consolidated non-interest expenses for the periods indicated (*in thousands, except percentages*):

For the Year Ended December 31,

Percentage Change

2009

2008

2007

2009 vs. 2008

2008 vs. 2007

Non-interest expenses:

Compensation and benefits

\$

718,115

\$

582,778

\$

543,021

%

23.2

%

7.3

Occupancy and equipment rental

89,741

67,984

132

	57,796
	32.0
	17.6
Communications and office supplies	
	54,745
	45,621
	42,355
	20.0
	7.7
Commissions and floor brokerage	
	133

	23,416
	13,287
	9,921
	76.2
	33.9
Other operating expenses	
	84,205
	68,898
	56,126
	134

	22.2
	22.8
Total non-interest expenses	
\$	970,222
\$	778,568
\$	709,219
	24.6
%	
	9.8
%	

Year Ended December 31, 2009 Compared with Year Ended December 31, 2008

Except as noted in the following discussion of variances, the underlying reasons for the increase in non-interest expenses can be attributed principally to our continued expansion, increased administrative overhead to support the growth in our segments and the transaction costs associated with the UBS acquisition.

Compensation and benefits - Compensation and benefits expenses, which are the largest component of our expenses, include salaries, bonuses, transition pay, benefits, amortization of stock-based compensation, employment taxes and other employee-related costs. Transition pay consists principally of upfront notes, signing bonuses and retention awards in connection with our continuing expansion efforts. See Use of Capital Resources in the "Liquidity and Capital Resources" section of this report for additional information regarding our use of upfront notes. A significant portion of compensation expense is comprised of production-based variable compensation, including discretionary bonuses, which fluctuates in proportion to the level of business activity, increasing with higher revenues and operating profits. Other compensation costs, including base salaries, stock-based compensation amortization, and benefits, are more fixed in nature.

For the year ended December 31, 2009, compensation and benefits expense increased 23.2%, or \$135.3 million, to \$718.1 million from \$582.8 million during the comparable period in 2008. The increase in compensation and benefits expense is primarily attributable to increased headcount and higher production-based variable compensation.

Compensation and benefits expense as a percentage of net revenues decreased to 65.8% for the year ended December 31, 2009, from 67.0% for the comparable period in 2008. The decrease in compensation and benefits expense as a percent of net revenues is primarily attributable to increased net revenues as compared to the year ended December 31, 2008, offset by an increase in transition pay and base salaries.

A portion of compensation and benefits expense includes transition pay of \$56.2 million (5.2% of net revenues) for the year ended December 31, 2009 compared to \$34.3 million (3.9% of net revenues) for the comparable period in 2008. In addition, for the year ended December 31, 2008, compensation and benefits expense includes \$25.6 million for amortization of units awarded to Legg Mason ("LM Capital Markets") associates, which were fully amortized as of December 31, 2008.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Occupancy and equipment rental - For the year ended December 31, 2009, occupancy and equipment rental expense increased 32.0% to \$89.7 million from \$68.0 million during the comparable period in 2008. The increase is primarily due to the continued expansion of our segments, which has increased our rent and depreciation expense. As of December 31, 2009, we have 294 locations compared to 225 at December 31, 2008.

Communications and office supplies - Communications expense include costs for telecommunication and data communication, primarily for obtaining third-party market data information. For the year ended December 31, 2009, communications and office supplies expense increased 20.0% to \$54.7 million from \$45.6 million during the comparable period in 2008. The increases were primarily attributable to our continued expansion as we sustained our growth initiatives throughout 2009 by adding additional revenue producers and support staff.

Commissions and floor brokerage - For the year ended December 31, 2009, commissions and floor brokerage expense increased 76.2% to \$23.4 million from \$13.3 million during the comparable period in 2008. The increase is primarily attributable to increased business activity. The increase over the comparable period in 2008 is also attributable to a rebate of \$1.5 million received during the first quarter of 2008 related to 2007 clearing fees. We received no such rebates in 2009.

Other operating expenses - Other operating expenses primarily include license and registration fees, litigation-related expenses, which consist of amounts we reserve and/or pay out related to legal and regulatory matters, travel and entertainment, promotional expenses and expenses for professional services.

For the year ended December 31, 2009, other operating expenses increased 22.2% to \$84.2 million from \$68.9 million during the comparable period in 2008.

The increase is primarily attributable to the continued growth in all segments during 2009, which included increased license and registration fees, SIPC assessments, securities processing fees, travel and promotion, legal expenses and UBS acquisition costs of \$3.4 million. The increase in legal expenses is attributable to an increase in litigation associated with the ongoing investigations in connection with ARS, and litigation costs to defend industry recruitment claims.

Provision for income taxes - For the year ended December 31, 2009, our provision for income taxes was \$44.6 million, representing an effective tax rate of 37.1%, compared to \$36.3 million for the comparable period in 2008, representing an effective tax rate of 39.5%. Our current year effective tax rate was reduced due to the recognition of a tax benefit of \$3.4 million during the third quarter related to an investment and jobs creation tax credit.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Year Ended December 31, 2008 Compared with Year Ended December 31, 2007

Except as noted in the following discussion of variances, the underlying reasons for the increase in non-interest expenses can be attributed principally to our continued expansion and increased administrative overhead to support the growth in our segments.

Compensation and benefits - For the year ended December 31, 2008, compensation and benefits expense increased 7.3%, or \$39.8 million, to \$582.8 million from \$543.0 million during the comparable period in 2007. The increase in compensation and benefits expense over the prior year periods is primarily attributable to increased headcount and higher production-based variable compensation. Compensation and benefits expense as a percentage of net revenues decreased to 67.0% for the year ended December 31, 2008, from 71.2% for the comparable period in 2007. Included in compensation and benefits in 2007 is \$24.9 million of acquisition-related expenses associated with the Ryan Beck acquisition, principally a charge related to the acceleration of vesting arising from the amendment of the Ryan Beck deferred compensation plans.

A portion of employee compensation and benefits includes transition pay of \$34.3 million (3.9% of net revenues) and \$28.6 million (3.7% of net revenues) for the twelve months ended December 31, 2008 and 2007, respectively. In addition, for the twelve months ended December 31, 2008 and 2007, employee compensation and benefits includes \$25.6 million and \$24.2 million, respectively, for amortization of units awarded to LM Capital Markets associates. These units were fully amortized as of December 31, 2008.

Occupancy and equipment rental - For the year ended December 31, 2008, occupancy and equipment rental expense increased 17.6% to \$68.0 million from \$57.8 million during the comparable period in 2007. The increase is primarily due to the increase in rent and depreciation expense. As of December 31, 2008, we have 225 locations compared to 175 at December 31, 2007.

Communications and office supplies - For the year ended December 31, 2008, communications and office supplies expense increased 7.7% to \$45.6 million from \$42.4 million during the comparable period in 2007. The increase is primarily attributable to our continued expansion as we sustained our growth initiatives throughout 2008 by adding additional revenue producers and support staff. During 2008, we began classifying certain outsourced services which were historically recorded as communications and office supplies as commission and floor brokerage. As a result, we recorded \$6.1 million of expenses as commissions and floor brokerage expense in 2008.

Commissions and floor brokerage - For the year ended December 31, 2008, commissions and floor brokerage expense increased 33.9% to \$13.3 million from \$9.9 million during the comparable period in 2007. The increase is primarily attributable to increased business activity and the previously mentioned classification change. The increase over the comparable period in 2007 is offset by a rebate of \$1.5 million received during the first quarter of 2008 related to 2007 clearing fees.

Other operating expenses - For the year ended December 31, 2008, other operating expenses increased 22.8% to \$68.9 million from \$56.1 million during the comparable period in 2007. The increase was primarily attributable to the continued growth in all segments during 2008.

During the fourth quarter of 2008 we recorded a contingency charge of \$5.3 million related to our voluntary partial repurchase plan for certain auction rate securities. Included in 2007 other operating expenses is a \$1.3 million charge for the write off of deferred issuance costs related to the 9% Stifel Financial Capital Trust I Convertible Preferred Securities called on July 13, 2007.

Provision for income taxes - For the year ended December 31, 2008, our provision for income taxes was \$36.3 million, representing an effective tax rate of 39.5%, compared to \$21.7 million for the comparable period in 2007, representing an effective tax rate of 40.3%. The higher effective tax rate in 2007 was due to the proportionately higher level of non-deductible expenses to net income.

SEGMENT ANALYSIS

Our reportable segments include Global Wealth Management, Capital Markets, and Other. The UBS branch acquisition and related customer account conversion to our platform has enabled us to leverage our customers' assets, which allows us the ability to provide a full array of financial products to both our private client group and Stifel Bank customers. As a result, during the third quarter of 2009, we changed how we manage these reporting units and consequently they were combined to form the Global Wealth Management segment. Previously reported segment information has been revised to reflect this change.

As a result of organizational changes in the second quarter of 2009, which included a change in the management reporting structure of our company, the segments formerly reported as Equity Capital Markets and Fixed Income Capital Markets have been combined into a single segment called Capital Markets. Previously reported segment information has been revised to reflect this change.

Our Global Wealth Management segment consists of two businesses, the private client group and Stifel Bank. The private client group includes branch offices and independent contractor offices of our broker-dealer subsidiaries located throughout the United States, primarily in the Midwest and Mid-Atlantic regions with a growing presence in the Northeast, Southeast and Western United States. These branches provide securities brokerage services, including the sale of equities, mutual funds, fixed income products, and insurance, as well as offering banking products to their private clients through Stifel Bank, which provides residential, consumer, and commercial lending, as well as Federal Depository Insurance Corporation-insured deposit accounts to customers of our broker-dealer subsidiaries and to the general public.

The Capital Markets segment includes institutional sales and trading. It provides securities brokerage, trading, and research services to institutions with an emphasis on the sale of equity and fixed income products. This segment also includes the management of and participation in underwritings for both corporate and public finance (exclusive of sales credits, which are included in the Global Wealth Management segment), merger and acquisition, and financial advisory services.

The Other segment includes interest income from stock borrow activities, unallocated interest expense, interest income and gains and losses from investments held, and all unallocated overhead costs associated with the execution of orders; processing of securities transactions; custody of client securities; receipt, identification, and delivery of funds and securities; compliance with regulatory and legal requirements; internal financial accounting and controls; acquisition charges related to the LM Capital Markets and Ryan Beck & Company, Inc. ("Ryan Beck") acquisitions, and general administration.

We evaluate the performance of our segments and allocate resources to them based on various factors, including prospects for growth, return on investment, and return on revenues.

Results of Operations - Global Wealth Management

The following table presents consolidated financial information for the Global Wealth Management segment for the periods indicated (*in thousands, except percentages*):

For the Year Ended December 31,

**Percentage
Change**

**As a Percentage of
Net Revenues
for the Year Ended
December 31,**

2009

2008

2007

2009 vs. 2008

2008 vs. 2007

2009

2008

2007

Revenues:

Commissions

\$

	234,052
\$	
	191,542
\$	
	191,987
	22.2
%	
	(0.2
)%	
	39.6
%	
	40.7
%	
	43.6
%	
Principal transactions	

194,384

124,578

89,363

56.0

39.4

32.9

26.4

20.3

Asset management and service fees

112,166

119,047

101,128

(5.8)

)

144

17.7

19.0

25.3

23.0

Interest

35,269

38,207

40,690

(7.7)

)

(6.1

)

6.0

145

	8.1
	9.2
Investment banking	
	14,906
	15,515
	40,071
	(3.9)
)	(61.3)
)	
	2.5
	3.3
	9.1
Other income/(loss)	

	8,626
	(1,174
)	
	1,851
	*
	*
	1.4
	(0.2
)	
	0.4
Total revenues	

599,404

487,715

465,090

22.9

4.9

101.4

103.6

105.6

Interest expense

8,081

16,710

24,579

148

	(51.6)
)	
	(32.0)
)	
	1.4
	3.6
	5.6
Net revenues	
	591,323
	471,005
	440,511
	25.5
	6.9
	149

100.0

100.0

100.0

Non-interest expenses:

Compensation and benefits

370,157

151

289,207

275,728

28.0

4.9

62.6

61.4

62.6

Occupancy and equipment rental

50,487

36,200

152

29,033

39.5

24.7

8.5

7.7

6.6

Communication and office supplies

26,628

19,341

15,915

37.7

21.5

153

	4.5
	4.1
	3.6
Commissions and floor brokerage	
	7,606
	4,452
	4,747
	70.9
)	(6.2
	1.3
	0.9
	154

	1.1
Other operating expenses	
	36,397
	23,708
	18,745
	53.5
	26.5
	6.2
	5.1
	4.2
Total non-interest expenses	
	155

491,275

372,908

344,168

31.7

8.4

83.1

79.2

78.1

Income before income taxes

\$

100,048

\$

98,097

156

\$	96,343
	2.0
%	1.8
%	
	16.9
%	20.8
%	21.9
%	

* Percentage is not meaningful.

December 31, 2009

December 31, 2008

December 31, 2007

Branch offices (actual)

272

196

148

Financial advisors (actual)

1,719

1,142

966

Independent contractors (actual)

166

173

161

Assets in fee-based accounts:

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Value (in thousands)

9,309,775

5,775,565

6,668,882

Number of accounts (actual)

44,071

24,177

21,803

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Year Ended December 31, 2009 Compared with Year Ended December 31, 2008

Except as noted in the following discussion of variances, the underlying reasons for the increase in revenue can be attributed principally to the increased number of private client group offices and financial advisors, the acquisition of Butler Wick on December 31, 2008, and the closing of the UBS acquisition during the third and fourth quarters of 2009. During the year ended December 31, 2009, we added 99 private client group offices and 645 financial advisors, including 56 offices and 321 Financial Advisors from UBS and 17 offices and 67 financial advisors from Butler Wick as part of our ongoing footprint expansion efforts.

NET REVENUES

For the year ended December 31, 2009, Global Wealth Management net revenues increased 25.5% to \$591.3 million from \$471.0 million for the comparable period in 2008. The increase in net revenues is primarily attributable to an increase in principal transactions, commissions and net interest revenues offset by decreases in asset management and service fees and investment banking.

Commissions - For the year ended December 31, 2009, commission revenues increased 22.2% to \$234.1 million from \$191.5 million in the comparable period in 2008. The increase is primarily attributable to an increase in agency transactions in OTC and listed equity securities, and insurance products. In addition, mutual fund revenue has increased over the comparable period in 2008.

Principal transactions - For the year ended December 31, 2009, principal transactions revenue increased 56.0% to \$194.4 million from \$124.6 million in the comparable period in 2008. The increase is primarily attributable to increased principal transactions, primarily in corporate debt, OTC equity, mortgage-backed bonds and municipal debt due to turbulent markets and customers returning to traditional fixed income products. The change in the mix from commissions-based revenues to principal transactions revenue has created an increase in our trading inventory levels primarily related to fixed income products.

Asset management and service fees - For the year ended December 31, 2009, asset management and service fees decreased 5.8% to \$112.2 million from \$119.0 million in the comparable period in 2008. The decrease is primarily a result of a reduction in fees for money-fund balances due to the waiving of fees by certain fund managers, offset by an increase in the number of managed accounts attributable principally to the continued growth of the private client group through the UBS transaction and organic growth and the growth in the value of assets in fee-based accounts from December 31, 2008. See Assets in Fee-based Accounts included in the table above for further details.

Interest revenue - For the year ended December 31, 2009, interest revenue decreased 7.7% to \$35.3 million from \$38.2 million in the comparable period in 2008. The decrease is primarily due to a decrease in interest revenue from customer margin borrowing to finance trading activity and lower average customer margin balances offset by increased interest revenues of \$4.7 million from the interest-earning assets of Stifel Bank. See "Distribution of Assets, Liabilities and Shareholders' Equity; Interest Rates and Interest Rate Differential" below for a further discussion of the changes in interest revenues.

Investment banking - Investment banking, which represents sales credits for investment banking underwritings, decreased 3.9% to \$14.9 million for the year ended December 31, 2009 from \$15.5 million during the comparable period in 2008. While there has been a significant rebound in investment banking activity, which began during the second quarter of 2009, our current year results were negatively impacted by the challenging market conditions that began during the second half of 2008 and continued into the first half of 2009. See further discussion of investment banking activities in the Capital Markets segment section.

Interest expense - For the year ended December 31, 2009, interest expense decreased 51.6% to \$8.1 million from \$16.7 million in the comparable period in 2008. The decrease is primarily due to decreased interest rates charged by banks on lower levels of borrowings. See "Distribution of Assets, Liabilities and Shareholders' Equity; Interest Rates and Interest Rate Differential" below for a further discussion of the changes in interest expense.

NON-INTEREST EXPENSES

For the year ended December 31, 2009, Global Wealth Management non-interest expenses increased 31.7% to \$491.3 million from \$372.9 million for the comparable period in 2008.

Unless specifically discussed below, the fluctuations in non-interest expenses were primarily attributable to the continued growth of our private client group during the year ended December 31, 2009. Our expansion efforts include the acquisitions of UBS and Butler Wick, as well as organic growth. As of December 31, 2009, we have 272 branch offices compared to 196 at December 31, 2008. In addition, since December 31, 2008, we have added 1,087 revenue producers and support staff.

Compensation and benefits - For the year ended December 31, 2009, compensation and benefits expense increased 28.0% to \$370.2 million from \$289.2 million during the comparable period in 2008. The increase is principally due to increased variable compensation as a result of increased production and increased fixed compensation as a result of the expansion of our branch office support.

Compensation and benefits expense as a percentage of net revenues increased to 62.6% for the year ended December 31, 2009 compared to 61.4% for the comparable period in 2008. The increase in compensation and benefits expense as a percent of net revenues is primarily attributable to increased transition pay, which consists of the amortization of upfront notes, signing bonuses and retention awards, and increased overhead in connection with our continued expansion efforts.

A portion of compensation and benefits expense includes transition pay, principally in the form of upfront notes, signing bonuses and retention awards in connection with our continuing expansion efforts, of \$40.6 million (6.9% of net revenues) for the year ended December 31, 2009 compared to \$28.2 million (6.0% of net revenues) for the year ended December 31, 2008. The upfront notes are amortized over a five to ten year period.

Occupancy and equipment rental - For the year ended December 31, 2009, occupancy and equipment rental expense increased 39.5% to \$50.5 million from \$36.2 million during the comparable period in 2008.

Communications and office supplies - For the year ended December 31, 2009, communications and office supplies expense increased 37.7% to \$26.6 million from \$19.3 million during the comparable period in 2008.

Commissions and floor brokerage - For the year ended December 31, 2009, commissions and floor brokerage expense increased \$3.1 million, or 70.9%, to \$7.6 million from \$4.5 million during the comparable period in 2008.

Other operating expenses - For the year ended December 31, 2009, other operating expenses increased 53.5% to \$36.4 million from \$23.7 million during the comparable period in 2008. As a result of the growth of the private client group during the year ended December 31, 2009, there has been an increase in license and registration fees, securities processing fees, and expenses associated with our acquisition of UBS of \$3.4 million, as well as litigation costs to defend industry recruiting claims.

INCOME BEFORE INCOME TAXES

For the year ended December 31, 2009, income before income taxes increased 2.0% to \$100.0 million from \$98.1 million during the comparable period in 2008. Profit margins for the year ended December 31, 2009 have decreased to 16.9% from 20.8% during the comparable period in 2008. Profit margins have diminished resulting from start-up costs associated with branch office openings and the transaction costs associated with the UBS acquisition, as we took advantage of the opportunities created by market displacement.

Year Ended December 31, 2008 Compared with Year Ended December 31, 2007

NET REVENUES

For the year ended December 31, 2008, Global Wealth Management net revenues increased 6.9% to \$471.0 million from \$440.5 million for the comparable period in 2007. The increase in net revenues is primarily attributable to an increase in principal transactions, asset management and service fees and net interest revenues offset by decreases in commissions and investment banking.

Commissions - For the year ended December 31, 2008, commission revenues of \$191.5 million remained consistent with the comparable period in 2007. The continued expansion of the private client group during 2008 led to an increase in the number of financial advisors and customer accounts. The impact of the expansion on commissions revenues was offset by the change in the mix from commissions-based revenues to principal transactions revenue as a result of the market upheaval and customers returning to fixed income products.

Principal transactions - For the year ended December 31, 2008, principal transactions revenue increased 39.4% to \$124.6 million from \$89.4 million in the comparable period in 2007. The increase is primarily attributable to the increased number of branch locations resulting from the Ryan Beck acquisition and the continued expansion of the private client group and an increase in the number of financial advisors.

Asset management and service fees - For the year ended December 31, 2008, asset management and service fees increased 17.7% to \$119.0 million from \$101.1 million in the comparable period in 2007. The increase is primarily a result of increased distribution fees for money market funds, principally Federal Deposit Insurance Corporation insured accounts, offset by a 13.4% decrease in the value of assets in fee-based accounts from December 31, 2007. See Assets in Fee-based Accounts included in the table above for further details.

Interest revenue - For the year ended December 31, 2008, interest revenue decreased 6.1% to \$38.2 million from \$40.7 million in the comparable period in 2007. The decrease is primarily due to a decrease in interest revenue from customer margin borrowing to finance trading activity and lower average customer margin balances. See "Distribution of Assets, Liabilities and Shareholders' Equity; Interest Rates and Interest Rate Differential" below for a further discussion of the changes in interest revenues.

Investment banking - Investment banking, which represents sales credits for investment banking underwritings, decreased 61.3% to \$15.5 million for the year ended December 31, 2008 from \$40.1 million during the comparable period in 2007. The decrease is attributable to the industry-wide decline in common stock offerings and mergers and acquisitions caused by challenging capital market conditions during 2008. See further discussion of investment banking activities in the Capital Markets segment section.

Interest expense - For the year ended December 31, 2008, interest expense decreased 32.0% to \$16.7 million from \$24.6 million in the comparable period in 2007. The decrease is primarily due to decreased interest rates charged by banks on lower levels of borrowings to finance customer borrowing. See "Distribution of Assets, Liabilities and Shareholders' Equity; Interest Rates and Interest Rate Differential" below for a further discussion of the changes in interest expense.

NON-INTEREST EXPENSES

For the year ended December 31, 2008, Global Wealth Management non-interest expenses increased 8.4% to \$372.9 million from \$344.2 million for the comparable period in 2007.

Unless specifically discussed below, the fluctuations in non-interest expenses were primarily attributable to the continued growth of our private client group during the year ended December 31, 2008. As of December 31, 2008, we have 196 branch offices compared to 148 at December 31, 2007.

Compensation and benefits - For the year ended December 31, 2008, compensation and benefits expense increased 4.9% to \$289.2 million from \$275.7 million during the comparable period in 2007. The increase is principally due to increased variable compensation as a result of increased production and fixed compensation. Compensation and benefits expense as a percentage of net revenues decreased to 61.4% for the year ended December 31, 2008 compared to 62.6% for the comparable period in 2007.

A portion of compensation and benefits expenses includes transition pay, principally in the form of upfront notes, signing bonuses and retention awards in connection with our continuing expansion efforts, of \$28.2 million (6.0% of net revenues) for the year ended December 31, 2008 compared to \$23.1 million (5.2% of net revenues) for the year ended December 31, 2007. The upfront notes are amortized over a five to ten year period.

Occupancy and equipment rental - For the year ended December 31, 2008, occupancy and equipment rental expense increased 24.7% to \$36.2 million from \$29.0 million during the comparable period in 2007.

Communications and office supplies - For the year ended December 31, 2008, communications and office supplies expense increased 21.5% to \$19.3 million from \$15.9 million during the comparable period in 2007.

Commissions and floor brokerage - For the year ended December 31, 2008, commissions and floor brokerage expense decreased \$0.2 million, or 6.2%, to \$4.5 million from \$4.7 million during the comparable period in 2007.

Other operating expenses - For the year ended December 31, 2008, other operating expenses increased 26.5% to \$23.7 million from \$18.7 million during the comparable period in 2007.

INCOME BEFORE INCOME TAXES

For the year ended December 31, 2008, income before income taxes increased 1.8%, or \$1.8 million, to \$98.1 million from \$96.3 million during the comparable period in 2007. The increase is primarily attributable to increased net revenues and the scalability of increased production.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

The information required by Securities Act Guide 3 - *Statistical Disclosure by Bank Holding Company* is presented below:

I. Distribution of Assets, Liabilities and Shareholders' Equity; Interest Rates and Interest Rate Differential

The following table presents average balance data and operating interest revenue and expense data for Stifel Bank, as well as related interest yields for the periods indicated (*in thousands, except rates*):

For the Year Ended

December 31, 2009

December 31, 2008

Average Balance

**Interest Income/
Expense**

Average Interest Rate

Average Balance

Interest Income/
Expense

Average Interest Rate

Assets:

Federal funds sold

\$

195,783

\$

763

0.39

170

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

%	
\$	
	10,027
\$	
	214
	2.14
%	
U.S. government agencies	
	1,775
	97
	5.46
	13,361
	824
	171

State and political subdivisions:

Taxable

-

-

-

9,240

375

4.05

Non-taxable (1)

1,096

45

4.11

1,530

173

	58
	3.81
Mortgage-backed securities	
	162,694
	5,878
	3.61
	32,916
	1,731
	5.26
Corporate bonds	
	174

27,627

1,244

4.50

926

57

6.12

Asset-backed securities

16,997

717

4.22

175

20,060

1,519

7.57

Federal Home Loan Bank ("FHLB") and other capital stock

762

9

1.18

991

28

2.82

Loans (2)

176

239,879

9,914

4.13

170,244

9,807

5.76

Loans held for sale

40,619

1,616

3.98

177

	14,598
	640
	4.38
Total interest-earning assets (3)	
\$	687,232
\$	20,283
%	2.95
\$	273,893
\$	15,253
	178

5.57

%

Cash and due from banks

4,927

3,444

Other non interest-earning assets

23,289

179

23,350

Total assets

\$

715,448

\$

300,687

Liabilities and shareholders' equity:

Deposits:

Money market

\$

591,961

\$

3,841

%

0.65

\$

178,198

\$

3,491

%

1.96

183

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Time deposits

20,104

676

3.36

36,287

1,600

4.41

Demand deposits

11,072

29

184

0.26

2,755

44

1.60

Savings

303

-

-

339

3

185

	0.97
FHLB advances	
	3,304
	103
	3.12
	10,739
	275
	2.56
Federal funds and repurchase agreements	
	10
	186

	-
	-
	887
	21
	2.41
Total interest-bearing liabilities (3)	
\$	626,754
\$	4,649
%	0.74
\$	229,205
	187

\$

5,434

2.37

%

Non interest-bearing deposits

15,054

15,293

Other non interest-bearing liabilities

3,014

1,480

Total liabilities

644,822

245,978

Shareholders' equity

70,626

54,709

Total liabilities and shareholders' equity

\$

715,448

\$

300,687

Net interest margin

\$

15,634

191

2.27

%

\$

9,819

3.58

%

Period

April 2, 2007 - December 31, 2007 *

Average Balance

**Interest Income/
Expense**

Average Interest Rate

Assets:

Federal funds sold

\$

24,717

\$

944

%

5.10

U.S. government agencies

21,490

897

5.57

State and political subdivisions:

Taxable

5,238

231

5.88

Non-taxable (1)

1,527

38

3.32

195

Mortgage-backed securities

19,473

902

6.18

Corporate bonds

664

36

7.18

Asset-backed securities

196

	9,465
	517
	7.28
FHLB and other capital stock	
	503
	19
	5.05
Loans (2)	
	104,945
	5,816
	197

Loans held for sale

-

-

-

Total interest-earning assets (3)

\$

188,022

\$

9,400

%

6.67

Cash and due from banks

1,696

Other non interest-earning assets

16,746

Total assets

\$

206,464

Liabilities and shareholders' equity:

Deposits:

Money market

\$

92,915

\$

3,290

%

4.69

Time deposits

53,490

201

	1,982
	4.94
Demand deposits	
	1,623
	40
	3.27
Savings	
	495
	9
	2.42
	202

FHLB advances

3,642

145

5.32

Federal funds and repurchase agreements

119

3

3.33

Total interest-bearing liabilities (3)

\$

203

152,284

\$

5,469

%

4.79

Non interest-bearing deposits

9,442

Other non interest-bearing liabilities

850

Total liabilities

162,576

Shareholders' equity

43,888

Total liabilities and shareholders' equity

\$

206,464

Net interest margin

\$

3,931

2.51

%

* Stifel Bank was acquired on April 2, 2007.

(1) Due to immaterial amount of income recognized on tax-exempt securities, yields were not calculated on a tax equivalent basis.

(2) Loans on non-accrual status are included in average balances.

(3) See Net Interest Income table included in "Results of Operations" for additional information on our company's average balances and operating interest and expenses.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Net interest income - Net interest income is the difference between interest earned on interest-earning assets and interest paid on funding sources. Net interest income is affected by changes in the volume and mix of these assets and liabilities, as well as by fluctuations in interest rates and portfolio management strategies.

For the year ended December 31, 2009, interest revenue for Stifel Bank of \$20.3 million was generated from weighted average interest-earning assets of \$687.2 million at a weighted average interest rate of 2.95%. Interest-earning assets principally consist of residential, consumer, and commercial loans, securities, and federal funds sold.

For the year ended December 31, 2008, interest revenue for Stifel Bank of \$15.3 million was generated from weighted average interest-earning assets of \$273.9 million at a weighted average interest rate of 5.57%. Interest revenue of \$9.4 million for the period April 2 through December 31, 2007 was generated from weighted average interest-earning assets of \$188.0 million at a weighted average interest rate of 6.67%. Interest-earning assets principally consist of residential, consumer, and commercial loans, securities, and federal funds sold.

Interest expense represents interest on customer money market and savings accounts, interest on time deposits and other interest expense. The weighted average balance of interest-bearing liabilities during the year ended December 31, 2009 was \$626.8 million at a weighted average interest rate of 0.74%. The weighted average balance of interest-bearing liabilities during the year ended December 31, 2008 was \$229.2 million at a weighted average interest rate of 2.37%. The weighted average balance of interest-bearing liabilities for the period April 2 through December 31, 2007 was \$152.3 million at a weighted average interest rate of 4.79%.

The growth in Stifel Bank has been primarily driven by (i) the conversion of UBS branches to the Stifel Nicolaus platform with money market funds and FDIC-insured balances of \$1.7 billion and (ii) the growth in deposits associated with brokerage customers of Stifel Nicolaus. At December 31, 2009, the balance of Stifel Nicolaus brokerage customer deposits at Stifel Bank was \$1,008.6 million compared to \$228.7 million at December 31, 2008.

See the average balances and interest rates for Stifel Bank presented above for more information regarding average balances, interest income and expense, and average interest rate yields.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

The following table sets forth an analysis of the effect on net interest income of volume and rate changes for the periods indicated (*in thousands*):

**Year Ended December 31, 2009
Compared to Year Ended
December 31, 2008**

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Year Ended December 31, 2008
Compared to Year Ended
December 31, 2007

Increase (decrease) due to:

Increase (decrease) due to:

Volume

Rate

Total

Volume

Rate

Total

Interest income:

Federal funds sold

\$

862

\$

(313

)

\$

549

211

)

State and political subdivisions:

Taxable

)

)	(188
)	(375
	243
)	(99
	144
Non-taxable	
)	(17
	4
)	(13
	-
	214

20

20

Mortgage-backed securities

4,846

(699

)

4,147

977

(148

)

829

215

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Corporate bonds

1,206

(19

)

1,187

26

(5

)

21

Asset-backed securities

(205

)

(597

216

)		
		(802
)		
		968
		34
		1,002
FHLB and other capital stock		
		(5
)		
		(14
)		
		(19
)		
		17
		217

)	(8
)	9
Loans	
	3,697
	(3,590
)	
	107
	5,472
	(1,481
)	
	3,991
Loans held for sale	
	218

912

64

976

640

-

640

\$

10,463

\$

(5,433

)

219

\$

5,030

\$

8,027

\$

(2,174

)

\$

5,853

Increase (decrease) due to:

Increase (decrease) due to:

Volume

Rate

Total

Volume

Rate

Total

Interest expense:

Deposits:

Money market

\$ 3,900

\$ (3,550

)
\$ 350

\$ 3,227

\$ (3,026

)
\$ 201

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Time deposits

(603

)

(321

)

(924

)

(286

)

(96

)

(382

)

Demand deposits

46

(61

)

224

)	(15
)	34
)	(30
)	4
Savings	-
)	(3
)	(3
)	(2

)	(4
)	(6
FHLB advances	
)	(222
)	50
)	(172
)	261
)	(131
)	130
Federal funds and repurchase agreements	

)	(11
)	(10
)	(21
)	19
)	(1
)	18
\$	3,110
\$	(3,895
)	
\$	(785
	227

)		
\$		3,253
\$		(3,288)
)		
\$		(35)
)		

Increases and decreases in interest revenue and interest expense result from changes in average balances (volume) of interest-earning bank assets and liabilities, as well as changes in average interest rates. The effect of changes in volume is determined by multiplying the change in volume by the previous year's average yield/cost. Similarly, the effect of rate changes is calculated by multiplying the change in average yield/cost by the previous year's volume. Changes applicable to both volume and rate have been allocated proportionately.

II. Investment Portfolio

The following tables provide a summary of the amortized cost and fair values of the available-for-sale securities and held-to-maturity security at December 31, 2009, 2008 and 2007 *(in thousands)*:

December 31, 2009

**Amortized
cost**

**Gross unrealized
gains (1)**

Gross unrealized losses (1)

**Estimated
fair value**

Available-for-sale

U.S. government securities

\$

998

\$

13

\$

231

\$

-

1,011

State and municipal securities

960

32

-

992

Mortgage-backed securities:

Agency

432,820

1,880

(1,681

)

433,019

Non-agency

39,905

683

233

)	(2,122
	38,466
Commercial	
	47,274
	683
)	(317
	47,640
Corporate fixed income securities	
	40,788
	234

2,102

-

42,890

Asset-backed securities

13,235

1,235

-

14,470

\$

575,980

235

\$

6,628

\$

(4,120)

)

\$

578,488

Held-to-maturity

Asset-backed securities (2)

\$

7,574

-

(3,298)

)

\$

4,276

December 31, 2008

**Amortized
cost**

**Gross unrealized
gains (1)**

Gross unrealized losses (1)

**Estimated
fair value**

Available-for-sale

U.S. government securities

\$

8,447

\$

144

\$

-

\$

8,591

State and municipal securities

239

1,513

19

(1

)

1,531

Mortgage-backed securities:

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Agency

12,821

-

(391

)

12,430

Non-agency

23,091

-

(5,669

)

17,422

241

Asset-backed securities

11,400

-

(977

)

10,423

\$

57,272

\$

163

\$

(7,038

)

\$

242

Held-to-maturity

Asset-backed securities (2)

\$

7,574

-

(1,324

)

\$

6,250

December 31, 2007

**Amortized
cost**

**Gross unrealized
gains (1)**

Gross unrealized losses (1)

**Estimated
fair value**

Available-for-sale

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

U.S. government securities

\$ 22,485

\$ 278

\$ (1

)
\$ 22,762

State and municipal securities

15,121

5

-

247

15,126

Mortgage-backed securities:

Agency

13,465

-

(10)

248

)

13,455

Non-agency

14,444

232

-

14,676

Corporate bonds

2,993

-

249

(23

)

2,970

Asset-backed securities

19,699

-

(1,581

)

18,118

\$

88,207

\$

515

250

\$

(1,615

)

\$

87,107

(1) Unrealized gains/(losses) related to available-for-sale securities are reported in other comprehensive income/(loss).

(2) Held-to-maturity securities are carried on the consolidated statements of financial condition at amortized cost and the changes in the value of these securities, other than impairment charges, are not reported on the financial statements.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

On June 30, 2008, we transferred a \$10,000 par value asset backed security, consisting of investment-grade trust preferred securities related primarily to banks, with an amortized cost basis of \$10,069 from our available-for-sale securities portfolio to our held-to-maturity portfolio. This security was transferred at the estimated fair value of \$7,574. The gross unrealized loss of \$2,495 included in accumulated other comprehensive income/(loss) is being amortized as an adjustment of yield over the remaining life of the security. The estimated fair value of the held-to-maturity security at December 31, 2009 was \$4,276. The estimated fair value was determined using several factors; however, primary weight was given to discounted cash flow modeling techniques that incorporated an estimated discount rate based upon recent observable debt security issuances with similar characteristics.

We evaluate our investment securities portfolio on a quarterly basis for other-than-temporary impairment ("OTTI"). We assesses whether OTTI has occurred when the fair value of a debt security is less than the amortized cost basis at the balance sheet date. Under these circumstances, OTTI is considered to have occurred (1) if we intend to sell the security; (2) if it is more likely than not we will be required to sell the security before recovery of its amortized cost basis; or (3) the present value of the expected cash flows is not sufficient to recover the entire amortized cost basis. For securities that we do not expect to sell or it is not more likely than not to be required to sell, credit-related OTTI, represented by the expected loss in principal, is recognized in earnings, while noncredit-related OTTI is recognized in other comprehensive income/(loss) ("OCI"). For securities which we expect to sell, all OTTI is recognized in earnings.

Noncredit-related OTTI results from other factors, including increased liquidity spreads and extension of the security. Presentation of OTTI is made in the income statement on a gross basis with a reduction for the amount of OTTI recognized in OCI. We applied the related OTTI guidance on our held-to-maturity debt security.

Based on the evaluation, we recognized other-than-temporary impairment of \$1.9 million related to credit through earnings for the year ended December 31, 2009. For the impaired security, unrealized losses not related to credit and therefore recognized in other comprehensive income was \$1.1 million (net of tax was \$0.6 million) as of December 31, 2009. The following table provides a summary of our held-to-maturity security at December 31, 2009 (*in thousands*):

**December 31,
2009**

Held-to-maturity:

Original Amortized cost (1)

\$

10,069

Impairment losses

(1,881

)

Amortized cost

8,188

Non-credit related impairment losses on securities not expected to be sold

(614

)

Carrying value (2)

\$

7,574

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

(1) For securities transferred to held-to-maturity from available-for-sale, amortized cost is defined as the original purchase cost, plus or minus any accretion or amortization of interest, less any impairment previously recognized in earnings.

(2) Held-to-maturity securities are carried on the consolidated statement of financial condition at amortized cost and the changes in the value of these securities, other than impairment charges, are not reported on the financial statements.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

The maturities and related weighted-average yields of available-for-sale and held-to-maturity securities at December 31, 2009 are as follows (*in thousands, except rates*):

**Within 1
Year**

1-5 Years

5-10 Years

After 10 Years

Total

Available-for-sale: (1)

U.S. government securities

\$

1,011

\$

-

256

\$

-

\$

-

\$

1,011

State and municipal securities

-

992

-

-

992

Mortgage-backed securities:

257

Agency

-

-

-

433,019

433,019

Non-agency

-

-

9,658

28,808

38,466

Commercial

-

259

9,866

15,125

22,649

47,640

Corporate fixed income securities

6,271

35,532

1,087

-

260

	42,890
Asset-backed securities	
	691
	4,246
	9,533
	-
	14,470
\$	
	7,973
\$	
	50,636
	261

\$

35,403

\$

484,476

\$

578,488

Held-to-Maturity:

Asset-backed securities

\$

-

\$

-

\$

-

\$

7,574

\$

7,574

Weighted-average yield

	3.72
%	
	4.66
%	
	4.55
%	
	3.65
%	
	3.79
%	

(1) Due to an immaterial amount of income recognized on tax-exempt securities, yields were not calculated on a tax equivalent basis.

We did not hold securities from any single issuer that exceeded ten percent of our shareholders' equity at December 31, 2009.

III. Loan Portfolio

The following table presents the balance and associated percentage of each major loan category in Stifel Bank's loan portfolio at December 31, 2009, 2008 and 2007 (*in thousands*):

As of December 31,

2009

2008

2007

Consumer

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

\$		227,436
\$		19,662
\$		4,044
Residential real estate		52,086
		58,778
		24,285
Home equity lines of credit		33,369
		267

	28,612
	1,524
Commercial	
	11,294
	27,538
	31,417
Commercial real estate	
	10,152
	38,446
	39,184
	268

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Construction and land

952

13,968

24,447

335,289

187,004

124,901

Unamortized loan origination costs, net of loan fees

1,556

269

	591
	-
Loans in process	
	14
	(3,878
)	
	109
Allowance for loan losses	
	(1,702
)	
	(2,448
)	
	270

(1,685

)

\$

335,157

\$

181,269

\$

123,325

The maturities of the loan portfolio at December 31, 2009 are as follows (*in thousands*):

Within 1 Year

1-5 Years

Over 5 Years

Total

\$

196,004

\$

64,188

\$

82,901

\$

343,093

The sensitivity of loans with maturities in excess of one year at December 31, 2009 is as follows (*in thousands*):

1-5 Years

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Over 5 Years

Total

Fixed rate loans

\$

35,113

\$

1,446

\$

36,559

Variable or adjustable rate loans

29,075

81,455

110,530

\$

64,188

\$

82,901

\$

147,089

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Changes in the allowance for loan losses at Stifel Bank were as follows (*in thousands*):

Year Ended December 31,

2009

2008

2007*

Allowance for loan losses, beginning of period

\$

2,448

\$

1,685

\$

-

Acquisition of Stifel Bank

	-
	-
	1,127
Provision for loan losses	
	604
	1,923
	558
Charge-offs:	

Construction and land

(859

)

(493

)

(2

)

Commercial real estate

(294

)

(253

)

-

Real estate construction loans

)	(213
)	(414
	-
Other	
)	(25
	-
	-
Total charge-offs	
)	(1,391
	(1,160
	279

)		
		(2
)		
Recoveries		
		41
		-
		2
Allowance for loan losses, end of period		
\$		1,702
\$		2,448
\$		1,685
		280

Net charge-offs to average bank loans outstanding, net

	0.58
%	
	0.64
%	
	0.00
%	

* The results of Stifel Bank are included prospectively from April 2, 2007, the date of acquisition.

The following is a breakdown of the allowance for loan losses by type for the periods indicated (*in thousands, except rates*):

December 31, 2009

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

December 31, 2008

December 31, 2007

Balance

Percent*

Balance

Percent*

Balance

Percent*

Residential real estate

\$

619

15.8

%

\$

584

282

	44.8
%	
\$	
	100
	5.9
%	
Commercial real estate	
	610
	3.0
	1,192
	30.0
	972
	57.7
	283

Commercial

321

3.4

646

14.7

56

3.3

Consumer

152

77.8

284

26

10.5

8

0.5

Unallocated

-

-

-

-

549

285

32.6

\$

1,702

%

100.0

\$

2,448

%

100.0

\$

1,685

%

100.0

* Represents percentage of loans to loan portfolio total.

At December 31, 2009, Stifel Bank had \$1,368 of non-accrual loans that were more than 90 days past due, for which there was a specific allowance of an insignificant amount. Further, Stifel Bank had \$533 in troubled debt restructurings at December 31, 2009. At December 31, 2008 and 2007, Stifel Bank had \$0.6 million and \$0.7 million in non-accrual loans, respectively, for which there was a specific reserve of \$0.2 million and \$0.3 million, respectively. In addition, there were no accrual loans delinquent 90 days or more or troubled debt restructurings at December 31, 2008 and 2007.

Stifel Bank has no exposure to sub-prime mortgages. The gross interest income related to impaired loans, which would have been recorded had these loans been current in accordance with their original terms, and the interest income recognized on these loans during the years ended December 31, 2009, 2008 and 2007, were immaterial to the consolidated financial statements.

See the section entitled "Critical Accounting Policies and Estimates" herein regarding Stifel Bank's policies for establishing loan loss reserves, including placing loans on non-accrual status.

V. Deposits

Deposits consist of money market and savings accounts, certificates of deposit and demand deposits. The average balances of deposits and the associated weighted-average interest rates for the periods indicated are as follows (*in thousands, except percentages*):

Year ended December 31,

Period

2009

2008

April 2, - December 31, 2007

Average Balance

Average Interest Rate

Average Balance

Average Interest Rate

Average Balance

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Average Interest Rate

Demand deposits (interest bearing)

\$

603,033

0.64

%

\$

180,953

1.95

%

\$

94,538

4.23

%

Certificates of deposit (time deposits)

\$

20,104

3.36

%

289

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

\$

36,287

4.41

%

\$

53,490

4.94

%

Demand deposits (non-interest bearing)

\$

15,054

*

\$

15,293

*

\$

290

9,442

*

Savings accounts

\$

303

-

%

\$

339

0.97

%

\$

495

2.42

%

* Not applicable.

The results of Stifel Bank are included prospectively from April 2, 2007, the date of acquisition.

Scheduled maturities of certificates of deposit greater than \$100,000 at December 31, 2009 were as follows (*in thousands*):

0-3 Months

3-6 Months

6-12 Months

Over 12 Months

Total

\$

5,423

\$

265

\$

248

\$

1,770

294

\$

7,706

VI. Return on Equity and Assets

Year Ended December 31,

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

2009

2008

2007

Return on assets (net income as a percentage of average total assets)

2.93

%

3.32

%

2.12

%

Return on equity (net income as a percentage of average shareholders' equity)

9.97

%

11.10

%

8.24

296

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

%

Dividend payout ratio *

-

%

-

%

-

%

Equity to assets ratio (average shareholders' equity as a percentage of average total assets)

29.35

%

29.90

%

25.70

%

* We did not declare or pay any dividends during 2009, 2008 or 2007.

VII. Short-term Borrowings

The following is a summary of our short-term borrowings for the years ended December 31, 2009, 2008 and 2007 (*in thousands, except rates*):

Short-Term Borrowings

Stock Loan

2009:

Amount outstanding at December 31, 2009

\$

90,800

\$

Weighted-average interest rate thereon

1.04

%

0.33

%

Maximum amount of withdrawals at any month-end

\$

212,300

\$

85,432

Average amount outstanding during the year

\$

107,383

300

\$

53,110

Weighted-average interest rate thereon

0.99

%

1.07

%

2008:

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Amount outstanding at December 31, 2008

\$ -

\$ 16,987

Weighted-average interest rate thereon

% -

% 0.52

Maximum amount of withdrawals at any month-end

\$ 265,300

\$ 302

162,888

Average amount outstanding during the year

\$

132,660

\$

105,424

Weighted-average interest rate thereon

2.28

%

2.47

%

2007:

Amount outstanding at December 31, 2007

\$

127,850

\$

138,475

Weighted-average interest rate thereon

4.53

%

4.12

%

Maximum amount of withdrawals at any month-end

304

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

\$ 362,050

\$ 186,164

Average amount outstanding during the year

\$ 156,778

\$ 119,590

Weighted-average interest rate thereon

4.86

% 4.82

305

%

Results of Operations - Capital Markets

The following table presents consolidated financial information for the Capital Markets segment for the periods indicated (*in thousands, except percentages*):

For the Year Ended December 31,

**Percentage
Change**

**As a Percentage of
Net Revenues
for the Year Ended
December 31,**

2009

2008

2007

2009 vs. 2008

2008 vs. 2007

2009

2008

2007

Revenues:

Principal transactions

\$

	263,804
\$	
	168,707
\$	
	49,882
	56.4
%	
	238.2
%	
	53.3
%	
	43.2
%	
	16.4
%	
Commissions	

111,469

149,547

310

	123,486
	(25.5)
)	21.1
	22.6
	38.3
	40.8
Capital raising	61,657
	29,690
	55,420
	107.7
	311

(46.4

)

12.5

7.6

18.3

Advisory

49,244

38,506

74,153

27.9

(48.1

)

10.0

312

	9.9
	24.5
Investment banking	
	110,901
	68,196
	129,573
	62.6
	(47.4
)	
	22.5
	17.5
	42.8
Interest	
	313

	9,847
	9,068
	20,668
	8.6
)	(56.1)
	2.0
	2.3
	6.8
Other income	1,331
	314

	1,439
	875
	(7.6)
)	64.6
	0.3
	0.3
	0.3
Total revenues	497,352
	396,957
	324,484
	315

	25.3
	22.3
	100.7
	101.6
	107.1
Interest expense	
	3,260
	6,231
	21,553
	(47.7)
)	
	(71.1)
)	
	316

	0.7
	1.6
	7.1
Net revenues	
	494,092
	390,726
	302,931
	26.5
	29.0
	100.0
	100.0
	100.0
	317

Non-interest expenses:

Compensation and benefits

287,835

233,679

319

188,145

23.2

24.2

58.3

59.8

62.1

Occupancy and equipment rental

16,249

14,194

10,804

14.5

320

	31.4
	3.3
	3.6
	3.6
Communication and office supplies	
	18,540
	19,087
	19,879
	(2.9)
)	
	(4.0)
)	
	3.7
	321

	4.9
	6.5
Commissions and floor brokerage	
	15,716
	8,806
	3,239
	78.5
	171.9
	3.2
	2.3
	1.1
	322

Other operating expenses

26,619

23,068

20,015

15.4

15.3

5.4

5.9

6.6

Total non-interest expenses

364,959

323

298,834

242,082

22.1

23.4

73.9

76.5

79.9

Income before income taxes

\$

129,133

\$

91,892

\$

60,849

324

	40.5
%	
	51.0
%	
	26.1
%	
	23.5
%	
	20.1
%	

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Year Ended December 31, 2009 Compared with Year Ended December 31, 2008

NET REVENUES

For the year ended December 31, 2009, Capital Markets net revenues increased 26.5% to \$494.1 million from \$390.7 million for the comparable period in 2008. The increase in net revenues for the year ended December 31, 2009 over the comparable period in 2008 is primarily attributable to an increase in principal transactions, investment banking and net interest revenues offset by a decrease in commissions.

Principal transactions - For the year ended December 31, 2009, principal transactions revenue increased \$95.1 million, or 56.4%, to \$263.8 million from \$168.7 million in the comparable period in 2008. The increase is primarily attributable to increased principal transactions, primarily in corporate debt, OTC equity, mortgage-backed bonds and municipal debt due to turbulent markets and institutional customers returning to traditional fixed income products. The change in the mix from commissions-based revenues to principal transactions revenue has created an increase in our trading inventory levels primarily related to fixed income products.

Commissions - For the year ended December 31, 2009, commission revenues decreased 25.5% to \$111.5 million from \$149.5 million in the comparable period in 2008. The volatility in capital markets has resulted in a decrease in trading volumes, as customers have returned to traditional fixed income products.

Investment banking - For the year ended December 31, 2009, investment banking revenues increased 60.6% to \$109.5 million from \$68.2 million in the comparable period in 2008.

For the year ended December 31, 2009, capital raising revenues increased \$30.6 million, or 103.0%, to \$60.3 million from \$29.7 million in the comparable period in 2008.

For the year ended December 31, 2009, fixed income capital raising revenues increased \$7.3 million to \$12.7 million from \$5.4 million during the comparable period in 2008.

During the second half of 2009, capital market conditions began to improve, and we raised capital for our clients in a number of successful public finance underwritings. In addition, our revenues were positively impacted by our investment in public finance offices and professional staff during the second half of 2008. For the year ended December 31, 2009, we were involved, as manager or co-manager, in 369 tax-exempt issues with a total par value of \$21.6 billion compared to 108 issues with a total par value of \$6.4 billion during the comparable period in 2008.

For the year ended December 31, 2009, equity capital raising revenues increased \$23.6 million to \$43.6 million from \$20.0 million during the comparable period in 2008. During the year ended December 31, 2009, we were involved, as manager or co-manager in 72 equity underwritings which raised a total of \$21.4 billion, compared to 46 during the comparable period in 2008, an increase of 56.5% in the number of underwritings over the comparable period in 2008.

For the year ended December 31, 2009, strategic advisory fees increased 27.9% to \$49.2 million from \$38.5 million in the comparable period in 2008. The increase is primarily due to an increase in the number of completed equity transactions and the aggregate transaction value, as well as the average revenue per transaction, over the comparable periods in 2008.

Interest revenue - For the year ended December 31, 2009, interest revenue increased 8.6% to \$9.8 million from \$9.1 million in the comparable period in 2008. The increase in interest revenues is primarily attributable to increased interest earned on our trading inventory. The change in the mix from commissions-based revenues to principal transactions revenue has created an increase in our trading inventory levels primarily related to fixed income products.

Interest expense - For the year ended December 31, 2009, interest expense decreased 47.7%, or \$2.9 million, to \$3.3 million from \$6.2 million in the comparable period in 2008. The decrease is due to decreased interest rates charged by banks on lower levels of borrowings to finance firm inventory.

NON-INTEREST EXPENSES

For the year ended December 31, 2009, Capital Markets non-interest expenses increased 22.1% to \$365.0 million from \$298.8 million for the comparable period in 2008.

Unless specifically discussed below, the fluctuations in non-interest expenses were primarily attributable to the continued growth of our Capital Markets segment during the year ended December 31, 2009. We have added 63 revenue producers (15 equity sales and trading professionals, 19 investment bankers, 19 fixed income sales and trading professionals and 10 public finance professionals) and 34 support staff since December 31, 2008.

Compensation and benefits - For the year ended December 31, 2009, compensation and benefits expense increased 23.2% to \$287.8 million from \$233.7 million during the comparable period in 2008. The increase is primarily due to increased fixed compensation and higher production-based variable compensation due to higher production as compared to the prior year.

Compensation and benefits expense as a percentage of net revenues decreased to 58.3% for the year ended December 31, 2009, compared to 59.8% for the comparable period in 2008. The decrease in compensation and benefits expense as a percent of net revenues is primarily attributable to increased net revenues, offset by increased costs associated with our continued expansion efforts during 2009.

Occupancy and equipment rental - For the year ended December 31, 2009, occupancy and equipment rental expense increased 14.5% to \$16.2 million from \$14.2 million during the comparable period in 2008.

Communications and office supplies - For the year ended December 31, 2009, communications and office supplies expense decreased 2.9% to \$18.5 million from \$19.1 million during the first year of 2008.

Commissions and floor brokerage - For the year ended December 31, 2009, commissions and floor brokerage expense increased \$6.9 million to \$15.7 million from \$8.8 million during the first year of 2008.

Other operating expenses - For the year ended December 31, 2009, other operating expenses increased 15.4% to \$26.6 million from \$23.1 million during the comparable period in 2008.

INCOME BEFORE INCOME TAXES

For the year ended December 31, 2009, income before income taxes for the Capital Markets segment increased \$37.2 million, or 40.5%, to \$129.1 million from \$91.9 million during the comparable period in 2008. The increase is primarily attributable to increased revenues and the scalability of increased production as a result of our continued expansion of the Capital Markets segment during 2009.

Year Ended December 31, 2008 Compared with Year Ended December 31, 2007

NET REVENUES

For the year ended December 31, 2008, Capital Markets net revenues increased 29.0% to \$390.7 million from \$302.9 million for the comparable period in 2007. The increase in net revenues for the year ended December 31, 2008 over the comparable period in 2007 is primarily attributable to an increase in principal transactions, commissions and net interest revenues offset by a decrease in investment banking.

Principal transactions - For the year ended December 31, 2008, principal transactions revenue increased \$118.8 million to \$168.7 million from \$49.9 million in the comparable period in 2007. The increase is primarily attributable to increased principal transactions, primarily in corporate and municipal debt and mortgage-backed bonds due to turbulent markets and institutional customers returning to traditional fixed income products.

Commissions - For the year ended December 31, 2008, commission revenues increased 21.1% to \$149.5 million from \$123.5 million in the comparable period in 2007. The increase is primarily attributable to the continued expansion of the Capital Markets segment.

Investment banking - For the year ended December 31, 2008, investment banking revenues decreased 47.4% to \$68.2 million from \$129.6 million in the comparable period in 2007. The decrease is attributable to the industry-wide decline in common stock offerings and mergers and acquisitions caused by challenging capital market conditions during 2008.

For the year ended December 31, 2008, capital raising revenues decreased \$25.7 million, or 46.4%, to \$29.7 million from \$55.4 million in the comparable period in 2007. For the year ended December 31, 2008, fixed income capital raising revenues decreased \$2.5 million to \$5.4 million from \$7.9 million during the comparable period in 2007. For the year ended December 31, 2008, equity capital raising revenues decreased \$19.1 million to \$20.0 million from \$39.1 million during the comparable period in 2007.

For the year ended December 31, 2008, strategic advisory fees decreased \$35.7 million, or 48.1%, to \$38.5 million from \$74.2 million in the comparable period in 2007. During the second quarter of 2007, we closed on a significant corporate finance investment banking transaction which contributed \$24.7 million in revenue.

Interest revenue - For the year ended December 31, 2008, interest revenue decreased \$11.6 million, or 56.1%, to \$9.1 million from \$20.7 million in the comparable period in 2007. The decrease in interest revenues is primarily attributable to decreased fixed income inventory held for sale to clients and the decline in interest rates.

Interest expense - For the year ended December 31, 2008, interest expense decreased \$15.4 million, or 71.1%, to \$6.2 million from \$21.6 million in the comparable period in 2007. The decrease is attributable to decreased interest expense incurred to carry the lower levels of fixed income inventory and a decrease in interest rates.

NON-INTEREST EXPENSES

For the year ended December 31, 2008, Capital Markets non-interest expenses increased 23.4% to \$298.8 million from \$242.1 million for the comparable period in 2007.

Compensation and benefits - For the year ended December 31, 2008, compensation and benefits expense increased 24.2% to \$233.7 million from \$188.1 million during the comparable period in 2007. The increase is primarily due to increased fixed compensation and higher production-based variable compensation due to higher production as compared to the prior year.

Compensation and benefits expense as a percentage of net revenues decreased to 59.8% for the year ended December 31, 2008, compared to 62.1% for the comparable period in 2007. The decrease in compensation and benefits expense as a percent of net revenues is primarily attributable to increased net revenues.

Occupancy and equipment rental - For the year ended December 31, 2008, occupancy and equipment rental expense increased 31.4% to \$14.2 million from \$10.8 million during the comparable period in 2007. The increase is primarily attributable to the expansion of Capital Markets segment, including increased expenses associated with the new downtown Baltimore location for our capital markets operations, which was occupied beginning in the fall of 2007.

Communications and office supplies - For the year ended December 31, 2008, communications and office supplies expense decreased 4.0% to \$19.1 million from \$19.9 million during the first year of 2007. During 2008, we began classifying certain outsourced services which were historically recorded as communications and office supplies as commission and floor brokerage. As a result, we recorded \$6.1 million of expenses as commission and floor brokerage in 2008.

Commissions and floor brokerage - For the year ended December 31, 2008, commissions and floor brokerage expense increased \$5.6 million to \$8.8 million from \$3.2 million during the first year of 2007.

Other operating expenses - For the year ended December 31, 2008, other operating expenses increased 15.3% to \$23.1 million from \$20.0 million during the comparable period in 2007. The increase is primarily attributable to the expansion of Capital Markets segment.

INCOME BEFORE INCOME TAXES

For the year ended December 31, 2008, income before income taxes for the Capital Markets segment increased \$31.1 million, or 51.0%, to \$91.9 million from \$60.8 million during the comparable period in 2007. The increase is primarily attributable to increased revenues and the scalability of increased production as a result of our continued expansion of the Capital Markets segment.

Results of Operations - Other Segment

The following table presents consolidated financial information for the Other segment for the periods presented (*in thousands, except percentages*):

For the Year Ended December 31,

**As a Percentage of
Net Revenues
for the Year Ended
December 31,**

2009

2008

2007

2009 vs. 2008

2008 vs. 2007

Net revenues

\$

5,221

\$

8,606

\$

19,623

(39.3

) %

(56.1

) %

Non-interest expenses:

Compensation and benefits

60,124

59,892

79,148

0.4

(24.3

334

)

Other operating expenses

53,864

46,934

43,821

14.8

7.1

Total non-interest expenses

113,988

106,826

335

	122,969
	6.7
	(13.1
)	
Loss before income taxes	
\$	
	(108,767
)	
\$	
	(98,220
)	
\$	
	(103,346
)	
	10.7
%	
	(5.0
) %	

Year Ended December 31, 2009 Compared with Year Ended December 31, 2008

Net revenues - For the year ended December 31, 2009, net revenues decreased 39.3% to \$5.2 million from \$8.6 million for the comparable period in 2008. The decrease in net revenues is primarily attributable to a \$6.5 million decrease in net interest revenues to \$0.8 million in 2009 as a result of decreased interest charged for short-term borrowings, offset by the reduction of investment losses during the year ended December 31, 2009. In addition, we recorded an impairment charge of \$1.9 million on our held-to-maturity investment during the fourth quarter due to an other-than-temporary decline in value.

Compensation and benefits - For the year ended December 31, 2009, compensation and benefits expense of \$60.1 million remained consistent with the comparable period in 2008.

For the year ended December 31, 2008, we incurred compensation charges of \$25.6 million related to the amortization of units awarded to LM Capital Markets associates, which were fully amortized as of December 31, 2008. Excluding the impact of these charges, the increase in compensation and benefits expense for the year ended December 31, 2009 over the comparable period in 2008 is primarily attributable to an increase in support personnel as we continued our growth initiatives during 2009. Since December 31, 2008, we have added 145 support associates primarily in Information Technology and Operations.

Other operating expenses - For the year ended December 31, 2009, other operating expenses increased 14.8% to \$53.9 million from \$46.9 million for the comparable period in 2008.

The increase is primarily attributable to the continued growth in all segments during 2009, which included increased SIPC assessments, securities processing fees, travel and promotion, and legal expenses. The increase in legal expenses is attributable to an increase in litigation

associated with the ongoing investigations in connection with ARS and an increase in the number of claims and litigation costs to defend industry recruitment claims.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Year Ended December 31, 2008 Compared with Year Ended December 31, 2007

Net revenues - For the year ended December 31, 2008, net revenues decreased \$11.0 million, or 56.1%, to \$8.6 million from \$19.6 million for the comparable period in 2007. The decrease is primarily due to investment losses of \$9.0 million as a result of the downturn in the equity markets and a \$6.5 million decrease in net interest revenues to \$7.3 million in 2008 as a result of decreased interest charged for short-term borrowings. In November 2008, we recorded a \$6.7 million gain before certain expenses and taxes on the extinguishment of \$12.5 million of 6.78% Stifel Financial Capital Trust IV Cumulative Preferred Securities.

Compensation and benefits - For the year ended December 31, 2008, compensation and benefits expense decreased 24.3% to \$59.9 million from \$79.1 million for the comparable period in 2007.

Included in employee compensation and benefits in 2007 are acquisition-related charges of \$24.9 million principally for the amendment and acceleration of vesting of the Ryan Beck deferred compensation plan. Excluding the 2007 acquisition-related charges, overall compensation and benefits increased primarily as a result of a 13.0% increase in support personnel for overall company growth. Additionally, included in employee compensation and benefits are acquisition-related expenses associated with the LM Capital Markets acquisition consisting principally of compensation charges of \$25.6 million and \$24.2 million in 2008 and 2007, respectively, primarily for amortization of units awarded to LM Capital Markets associates. These units were fully amortized as of December 31, 2008.

Other operating expenses - For the year ended December 31, 2008, other operating expenses increased 7.1% to \$46.9 million from \$43.8 million for the comparable period in 2007. Included in 2007 are \$6.4 million of acquisition-related expenses associated with Ryan Beck. Excluding the impact of the 2007 acquisition related charges, other operating expenses increased as a result of our continued growth. In addition, in the fourth quarter of 2008 we recorded a contingency charge of \$5.3 million related to our voluntary partial repurchase plan for certain auction rate securities.

Analysis of Financial Condition

Our company's consolidated statements of financial condition consist primarily of cash and cash equivalents, receivables, trading inventory, bank loans, investments, goodwill, loans and advances to financial advisors, bank deposits, and payables. Total assets of \$3.2 billion at December 31, 2009 were up 103.3% over December 31, 2008. The increase is primarily attributable to increased receivables, trading inventory, financial instruments, loans and advances to financial advisors and the recognition of goodwill associated with our acquisition of UBS. Our broker-dealer subsidiary's gross assets and liabilities, including trading inventory, stock loan/borrow, receivables and payables from/to brokers, dealers and clearing organizations and clients, fluctuate with our business levels and overall market conditions. The increase in assets is primarily attributable to the growth of our company, both organically and through the acquisition of UBS.

As of December 31, 2009, our liabilities were comprised primarily of short-term borrowings of \$90.8 million, deposits of \$1,047.2 million at Stifel Bank and payables to brokerage clients and broker, dealers and clearing organizations of \$214.9 million and \$90.5 million, respectively, at our broker-dealer subsidiaries, as well as accounts payable and accrued expenses, including accrued employee compensation of \$279.7 million. To meet our obligations to clients and operating needs, we have \$161.8 million in cash. We also have client brokerage receivables of \$383.2 million and \$335.2 million in loans at Stifel Bank.

Liquidity and Capital Resources

Management of Our Liquidity

Liquidity is essential to our business. We regularly evaluate cash requirements for current operations, commitments, development activities and capital expenditures and we may elect to raise additional funds for these purposes in the future through the issuance of either debt or equity, under our universal shelf registration filed with the SEC on March 30, 2009.

Based on our current cash flow budgets and forecasts of our short-term and long-term liquidity needs, management believes that our projected sources of liquidity will be sufficient to meet our projected liquidity needs for more than the next 12 months. Management will continue to assess our liquidity position and potential sources of supplemental liquidity in view of our operating performance, current economic and capital market conditions, and other relevant circumstances.

Our assets, consisting mainly of cash or assets readily convertible into cash are our principal source of liquidity. The liquid nature of these assets provides for flexibility in managing and financing the projected operating needs of the business. These assets are financed primarily by our equity capital, debentures to trusts, client credit balances, short-term bank loans, proceeds from securities lending, and other payables. We currently finance our client accounts and firm trading positions through ordinary course borrowings at floating interest rates from various banks on a demand basis and securities lending, with company-owned and client securities pledged as collateral. Changes in securities market volumes, related client borrowing demands, underwriting activity, and levels of securities inventory affect the amount of our financing requirements.

Our bank assets consist principally of retained loans, available-for-sale securities, and cash and cash equivalents. Stifel Bank's current liquidity needs are generally met through deposits from bank clients and equity capital. We monitor the liquidity of Stifel Bank daily to ensure its ability to meet customer deposit withdrawals, maintain reserve requirements and support asset growth.

We rely exclusively on financing activities and distributions from our subsidiaries for funds to implement our business and growth strategies. Net capital rules, restrictions under the borrowing arrangements of our subsidiaries, as well as the earnings, financial condition, and cash requirements of our subsidiaries, may each limit distributions to us from our subsidiaries.

We have an ongoing authorization, as amended, from the Board of Directors to repurchase our common stock in the open market or in negotiated transactions. In May 2005, the Board of Directors authorized the repurchase of an additional 3,000,000 shares, for a total authorization to repurchase up to 4,500,000 shares. The share repurchase program will manage our equity capital relative to the growth of our business and help to meet obligations under our employee benefit plans. Under existing Board authorizations at December 31, 2009, we are permitted to buy an additional 2,010,831 shares. We currently do not pay cash dividends on our common stock.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

We believe our existing assets, most of which are liquid in nature, together with the funds from operations, available informal short-term credit arrangements and our ability to raise additional capital will provide sufficient resources to meet our present and anticipated financing needs.

Cash Flow

Cash and cash equivalents decreased \$77.9 million to \$161.8 million at December 31, 2009 from \$239.7 million at December 31, 2008. Operating activities used \$347.3 million of cash primarily due to an increase in operating assets and liabilities offset by the net effect of non-cash expenses and cash from earnings. Investing activities used cash of \$850.8 million due our acquisition of the UBS branches, bank customer loan originations, purchases of eligible ARS from our customers as part of our voluntary repurchase plan, purchases of available-for-sale securities as part of our investment strategy at Stifel Bank, and fixed asset purchases, offset by proceeds from the sale of investments and bank customer loan repayments. During the year ended December 31, 2009, we purchased \$27.9 million in fixed assets, consisting primarily of information technology equipment, leasehold improvements and furniture and fixtures. Financing activities provided cash of \$1,120.2 million due to an increase in bank deposits principally due to the increase in affiliated deposits as a result of organic growth and the acquisition of UBS, proceeds received from bank borrowings, net proceeds of \$44.7 million from an "at-the-market" public offering of 1.0 million shares of our common stock in June 2009, and net proceeds of \$91.8 million from a public offering of 1.7 million shares of our common stock in September 2009.

Funding Sources

We use a variety of funding sources to obtain funds, which includes, but is not limited to, gathering deposits, issuing equity securities, and securitizing assets. Further liquidity is available to our company through uncommitted facilities, FHLB advances and federal funds agreements.

Cash and Cash Equivalents

We held \$161.8 million of cash and cash equivalents at December 31, 2009, compared to \$239.7 million at December 31, 2008. Cash and cash equivalents provide immediate sources of funds to meet our liquidity needs.

Securities Available-for-Sale

We held \$578.5 million in available-for-sale investment securities at December 31, 2009 compared to \$50.4 million at December 31, 2008. As of December 31, 2009, the weighted average life of the investment securities portfolio was approximately 3.2 years. These investment securities provide increased liquidity and flexibility to support our company's funding requirements.

We monitor the available for sale investment portfolio for other-than-temporary impairment based on a number of criteria, including the size of the unrealized loss position, the duration for which the security has been in a loss position, credit rating, the nature of the investments, current market conditions. For debt securities, we also consider any intent to sell the security and the likelihood it will be required to sell the security before its anticipated recovery. We continually monitor the ratings of its security holdings and conduct regular reviews of our credit sensitive assets.

Deposits

Deposits have become one of our largest funding sources. Deposits provide a stable, low-cost source of funds that we utilize to fund loan and asset growth and to diversify funding sources. We have continued to expand our deposit gathering efforts through our existing private client network and through expansion. These channels offer a broad set of deposit products that include demand deposits, money market deposits, and certificates of deposit ("CDs").

As of December 31, 2009, we had \$1,047.2 million in deposits compared to \$284.8 million at December 31, 2008. The growth in deposits is primarily attributable to the increase in brokerage deposits held by the bank and our UBS acquisition. Our core deposits are comprised of non-interest bearing deposits, money market deposit accounts, savings accounts and CDs.

Short-term borrowings from banks

Our short-term financing is generally obtained through the use of bank loans and securities lending arrangements. We borrow from various banks on a demand basis with company-owned and customer securities pledged as collateral. The value of the customer-owned securities is not reflected on the consolidated statements of financial condition. We maintain available ongoing credit arrangements with banks that provided a peak daily borrowing of \$379.3 million during the year ended December 31, 2009. There are no compensating balance requirements under these arrangements. At December 31, 2009, short-term borrowings from banks were \$90.8 million at an average rate of 1.04%, which were collateralized by company-owned securities valued at \$165.2 million. At December 31, 2008, there were no short-term borrowings from banks. The average bank borrowing was \$107.4 million, \$132.7 million and \$156.8 million during the year ended December 31, 2009, 2008 and 2007, respectively, at weighted average daily interest rates of 0.99%, 2.28% and 4.86%, respectively. At December 31, 2009 and 2008, Stifel Nicolaus had a stock loan balance of \$16.7 million and \$17.0 million, respectively, at weighted average daily interest rates of 0.33% and 0.52%, respectively. The average outstanding securities lending arrangements utilized in financing activities were \$53.1 million, \$105.4 million and \$119.6 million during the years ended December 31, 2009, 2008 and 2007, respectively, at weighted average daily effective interest rates of 1.07%, 2.47% and 4.82%, respectively. Customer-owned securities were utilized in these arrangements.

The impact of the tightened credit markets has resulted in decreased financing through stock loan as our counterparties sought liquidity. As a result, bank loan financing used to finance trading inventories increased.

Federal Home Loan Bank Advances and other secured financing

Stifel Bank has borrowing capacity with the Federal Home Loan Bank of \$125.7 million at December 31, 2009, of which \$123.7 million was unused, and a \$13.9 million federal funds agreement for the purpose of purchasing short-term funds should additional liquidity be needed. Stifel Bank receives overnight funds from excess cash held in Stifel Nicolaus brokerage accounts, which are deposited into a money market account. These balances totaled \$1,008.6 million at December 31, 2009.

Our liquidity requirements may change in the event we need to raise more funds than anticipated to increase inventory positions, support more rapid expansion, develop new or enhanced services and products, acquire technologies, or respond to other unanticipated liquidity requirements. We rely exclusively on financing activities and distributions from our subsidiaries for funds to implement our business and growth strategies, and repurchase our shares. Net capital rules, restrictions under our borrowing arrangements of our subsidiaries, as well as the earnings, financial condition, and cash requirements of our subsidiaries, may each limit distributions to us from our subsidiaries.

In the event existing internal and external financial resources do not satisfy our needs, we may have to seek additional outside financing. The availability of outside financing will depend on a variety of factors, such as market conditions, the general availability of credit, the volume of trading activities, the overall availability of credit to the financial services industry, credit ratings, and credit capacity, as well as the possibility that lenders could develop a negative perception of our long-term or short-term financial prospects if we incurred large trading losses or if the level of our business activity decreased due to a market downturn or otherwise. We currently do not have a credit rating, which could adversely affect our liquidity and competitive position by increasing our borrowing costs and limiting access to sources of liquidity that require a credit rating as a condition to providing funds.

Use of Capital Resources

On December 28, 2009, we announced that Stifel Nicolaus had reached an agreement between the State of Missouri, the State of Indiana, the State of Colorado and with an association of other State securities regulatory authorities regarding the repurchase of ARS from Eligible ARS investors. As part of the modified ARS repurchase offer we have accelerated the previously announced repurchase plan. We have agreed to repurchase ARS from Eligible ARS investors in four phases starting in January 2010 and ending on December 31, 2011. During January 2010, we repurchased \$21.2 million of ARS at par. At January 31, 2010, we estimate that our retail clients held \$103.1 million of eligible ARS after issuer redemptions of \$23.5 million and Stifel repurchases of \$81.2 million. See Item 3, "Legal Proceedings," for further details regarding ARS claims.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

On March 23, 2009, we announced that Stifel Nicolaus had entered into a definitive agreement with UBS Financial Services Inc. ("UBS") to acquire certain specified branches from the UBS Wealth Management Americas branch network. As subsequently amended, we agreed to acquire 56 branches (the "Acquired Locations") from UBS in four separate closings pursuant to this agreement. We completed the closings on the following dates: August 14, 2009, September 11, 2009, September 25, 2009 and October 16, 2009. This acquisition further expands our private client footprint.

The transaction was structured as an asset purchase for cash at a premium over certain balance sheet items, subject to adjustment. The payments to UBS in conjunction with all four closings of \$252.2 million included: (i) an upfront cash payment of \$28.8 million based on the actual number of branches and financial advisors acquired by Stifel Nicolaus; and (ii) aggregate payment of \$15.9 million for net fixed assets, employee forgivable loans and other assets, and (iii) securities-based and margin loans of \$207.4 million that were collateralized by securities included in customer accounts converted to the Stifel platform. In addition, a contingent earn-out payment is payable based on the performance of those UBS financial advisors who joined Stifel Nicolaus, over the two-year period following the closing.

We utilize transition pay, principally in the form of upfront demand notes, to aid financial advisors, who have elected to join our firm, to supplement their lost compensation while transitioning their customers' accounts to the Stifel platform. The initial value of the notes are determined primarily by the financial advisors trailing production and assets under management. These notes are generally forgiven over a five to ten year period based on production. The future estimated amortization expense of the upfront notes, assuming current year production levels and static growth for the years ended December 31, 2010, 2011, 2012, 2013, 2014 and thereafter are \$45.6 million, \$36.9 million, \$29.9 million, \$23.2 million and \$49.5 million, respectively. These estimates could change if we continue to grow our business through expansion or experience increased production levels.

The following table summarizes the activity related to our company's demand note receivable from January 1, 2008 to December 31, 2009 (*in thousands*):

**December 31,
2009**

December 31,
2008

Beginning balance

\$

105,767

\$

70,407

Notes issued - organic growth

81,953

52,339

Notes issued - acquisitions *

31,659

2,209

Amortization

	(33,407
)	
	(18,567
)	
Other	
	(849
)	
	(621
)	
Ending balance	
\$	185,123
\$	105,767

* Notes issued in conjunction with our acquisition of UBS branches and Butler Wick in 2009 and 2008, respectively.

We have paid \$113.6 million in the form of upfront notes to financial advisors for transition pay during 2009, which includes \$31.7 million of upfront notes issued to UBS financial advisors as a form of transition pay. As we continue to take advantage of the opportunities created by market displacement and as competition for skilled professionals in the industry increases, we may have to devote more significant resources to attracting and retaining qualified personnel.

We paid a contingent earn-out of \$25.5 million related to our acquisition of the LM Capital Markets business from Citigroup Inc. during the second quarter of 2009.

Net Capital Requirements

We operate in a highly regulated environment and are subject to net capital requirements, which may limit distributions to our company from our broker-dealer subsidiaries. Distributions from our broker-dealer subsidiaries are subject to net capital rules. These subsidiaries have historically operated in excess of minimum net capital requirements. However, if distributions were to be limited in the future due to the failure of our subsidiaries to comply with the net capital rules or a change in the net capital rules, it could have a material and adverse affect to our company by limiting our operations that require intensive use of capital, such as underwriting or trading activities, or limit our ability to implement our business and growth strategies, pay interest on and repay the principal of our debt, and/or repurchase our common stock. Our non broker-dealer subsidiary, Stifel Bank is also subject to various regulatory capital requirements administered by the federal banking agencies.

At December 31, 2009, Stifel Nicolaus had net capital of \$187.5 million, which was 39.4% of its aggregate debit items, and \$178.0 million in excess of its minimum required net capital; CSA had net capital of \$3.4 million, which was \$3.2 million in excess of its minimum required net capital. At December 31, 2009, SN Ltd had capital and reserves of \$7.2 million, which was \$6.6 million in excess of the financial resources requirement under the rules of the FSA. At December 31, 2009, Stifel Bank was considered well capitalized under the regulatory framework for prompt corrective action. See Note 20 of the Notes to Consolidated Financial Statements for details of our regulatory capital requirements.

Critical Accounting Policies and Estimates

In preparing our consolidated financial statements in accordance with U.S. generally accepted accounting principles and pursuant to the rules and regulations of the SEC, we make assumptions, judgments and estimates that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. We base our assumptions, judgments and estimates on historical experience and various other factors that we believe to be reasonable under the circumstances. Actual results could differ materially from these estimates under different assumptions or conditions. On a regular basis, we evaluate our assumptions, judgments and estimates. We also discuss our critical accounting policies and estimates with the Audit Committee of the Board of Directors.

We believe that the assumptions, judgments and estimates involved in the accounting policies described below have the greatest potential impact on our consolidated financial statements. These areas are key components of our results of operations and are based on complex rules that require us to make assumptions, judgments and estimates, so we consider these to be our critical accounting policies. Historically, our assumptions, judgments and estimates relative to our critical accounting policies and estimates have not differed materially from actual results.

For a full description of these and other accounting policies, see Note 2 of the Notes to Consolidated Financial Statements.

Valuation of Financial Instruments

We measure certain financial assets and liabilities at fair value on a recurring basis, including cash equivalents, trading securities owned, available-for-sale securities, investments and trading securities sold, but not yet purchased.

Trading securities owned and pledged and trading securities sold, but not yet purchased, are carried at fair value on the consolidated statements of financial condition, with unrealized gains and losses reflected on the consolidated statements of operations.

The fair value of a financial instrument is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, or an exit price. The degree of judgment used in measuring the fair value of financial instruments generally correlates to the level of pricing observability. Financial instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices in active markets generally have more pricing observability and less judgment used in measuring fair value. Conversely, financial instruments rarely traded or not quoted have less pricing observability and are measured at fair value using valuation models that require more judgment. Pricing observability is impacted by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, the characteristics specific to the transaction, and overall market conditions generally.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

When available, we use observable market prices, observable market parameters, or broker or dealer quotes (bid and ask prices) to derive the fair value of financial instruments. In the case of financial instruments transacted on recognized exchanges, the observable market prices represent quotations for completed transactions from the exchange on which the financial instrument is principally traded.

A substantial percentage of the fair value of our trading securities and other investments owned, trading securities pledged as collateral, and trading securities sold, but not yet purchased, are based on observable market prices, observable market parameters, or derived from broker or dealer prices. The availability of observable market prices and pricing parameters can vary from product to product. Where available, observable market prices and pricing or market parameters in a product may be used to derive a price without requiring significant judgment. In certain markets, observable market prices or market parameters are not available for all products, and fair value is determined using techniques appropriate for each particular product. These techniques involve some degree of judgment.

For investments in illiquid or privately held securities that do not have readily determinable fair values, the determination of fair value requires us to estimate the value of the securities using the best information available. Among the factors we consider in determining the fair value of investments are the cost of the investment, terms and liquidity, developments since the acquisition of the investment, the sales price of recently issued securities, the financial condition and operating results of the issuer, earnings trends and consistency of operating cash flows, the long-term business potential of the issuer, the quoted market price of securities with similar quality and yield that are publicly traded, and other factors generally pertinent to the valuation of investments. In instances where a security is subject to transfer restrictions, the value of the security is based primarily on the quoted price of a similar security without restriction but may be reduced by an amount estimated to reflect such restrictions. The fair value of these investments is subject to a high degree of volatility and may be susceptible to significant fluctuation in the near term and the differences could be material.

We have categorized our financial instruments measured at fair value into a three-level classification in accordance with ASC 820, "Fair Value Measurement and Disclosures." Fair value measurements of financial instruments that use quoted prices in active markets for identical assets or liabilities are generally categorized as Level I, and fair value measurements of financial instruments that have no direct observable levels are generally categorized as Level III. All other fair value measurements of financial instruments that do not fall within the Level I or Level III classification are considered Level II. The lowest level input that is significant to the fair value measurement of a financial instrument is used to categorize the instrument and reflects the judgment of management.

Level III financial instruments have little to no pricing observability as of the report date. These financial instruments do not have active two-way markets and are measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation. We have identified Level III financial instruments to include certain asset-backed securities, consisting of collateral loan obligation securities, that have experienced low volumes of executed transactions, certain corporate bonds and equity securities where there was less frequent or nominal market activity and auction-rate securities for which the market has been dislocated and largely ceased to function. Our Level III asset-backed securities are valued using cash flow models that utilize unobservable inputs. Level III corporate bonds are valued using prices from comparable securities. Equity securities with unobservable inputs are valued using management's best estimate of fair value, where the inputs require significant management judgment. Auction-rate securities are valued based upon our expectations of issuer redemptions and using internal models.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

At December 31, 2009, Level III assets for which we bear economic exposure were \$65.4 million or 5.7% of the total assets measured at fair value. During the year ended December 31, 2009, we recorded net purchases of \$31.3 million of Level III assets. Our valuation adjustments (realized and unrealized) reduced the value of our Level III assets by \$3.9 million. In June 2009, we began repurchasing eligible ARS from our customers as part of our voluntary repurchase plan, which have been classified as Level III assets at December 31, 2009.

At December 31, 2008, Level III assets for which we bear economic exposure were \$38.3 million or 9.5% of the total assets measured at fair value. During the year ended December 31, 2008, we recorded net sales of \$1.7 million of Level III assets. Our valuation adjustments (realized and unrealized) reduced the value of our Level III assets by \$9.5 million. Additionally, there were \$30.3 million of net transfers into the Level III category during 2008. The increase in net transfers is primarily attributable to reduced market volume and level of activity on some of our preferred and municipal auction rate securities.

At December 31, 2009, Level III assets included the following: \$56.0 million of auction rate securities, \$2.7 million of asset-backed securities and \$6.7 million of private equity and other fixed income securities.

Contingencies

We are involved in various pending and potential legal proceedings related to our business, including litigation, arbitration and regulatory proceedings. Some of these matters involve claims for substantial amounts, including claims for punitive damages. We have, after consultation with outside legal counsel and consideration of facts currently known by management, recorded estimated losses in accordance with ASC 450 ("ASC 450"), "Contingencies," to the extent that claims are probable of loss and the amount of the loss can be reasonably estimated. The determination of these reserve amounts requires us to use significant judgment and our final liabilities may ultimately be materially different. This determination is inherently subjective, as it requires estimates that are subject to potentially significant revision as more information becomes available and due to subsequent events. In making these determinations, we consider many factors, including, but not limited to, the loss and damages sought by the plaintiff or claimant, the basis and validity of the claim, the likelihood of a successful defense against the claim, and the potential for, and magnitude of, damages or settlements from such pending and potential litigation and arbitration proceedings, and fines and penalties or orders from regulatory agencies. See Item 3, "Legal Proceedings," in Part I of this report for information on our legal, regulatory and arbitration proceedings.

Allowance for Doubtful Receivables from Former Employees

We offer transition pay, principally in the form of upfront loans, to financial advisors and certain key revenue producers as part of our overall growth strategy. These loans are generally forgiven over a five- to ten-year period if the individual satisfies certain conditions, usually based on continued employment and certain performance standards. If the individual leaves before the term of the loan expires or fails to meet certain performance standards, the individual is required to repay the balance. In determining the allowance for doubtful receivables from former employees, we consider the facts and circumstances surrounding each receivable, including the amount of the unforgiven balance, the reasons for the terminated employment relationship, and the former employees' overall financial position. The loan balance from former employees at December 31, 2009 and December 31, 2008 was \$2.5 million and \$2.4 million, respectively, with associated loss allowances of \$1.5 million and \$1.2 million, respectively.

Allowance for Loan Losses

We regularly review the loan portfolio of Stifel Bank and have established an allowance for loan losses in accordance with ASC 450. The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. In providing for the allowance for loan losses, we consider historical loss experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. Large groups of smaller balance homogenous loans are collectively evaluated for impairment. Accordingly, we do not separately identify individual consumer and residential loans for impairment measurements.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

In addition, impairment is measured on a loan-by loan basis for commercial and construction loans and a specific allowance established for individual loans determined to be impaired in accordance with ASC 310 "Receivables." Impairment is measured using the present value of the impaired loan's expected cash flow discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent.

A loan is considered impaired when, based on current information and events, it is probable that the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement will not be collectible. Factors considered in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. We determine the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed.

Once a loan is determined to be impaired, usually when principal or interest becomes 90 days past due or when collection becomes uncertain, the accrual of interest and amortization of deferred loan origination fees is discontinued ("non-accrual status"), and any accrued and unpaid interest income is written off. Loans placed on non-accrual status are returned to accrual status when all delinquent principal and interest payments are collected and the collectibility of future principal and interest payments is reasonably assured. Loan losses are charged against the allowance when we believe the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

Derivative Instruments and Hedging Activities

Stifel Bank utilizes certain derivative instruments to minimize significant unplanned fluctuations in earnings caused by interest rate volatility. Our company's goal is to manage sensitivity to changes in rates by offsetting the repricing or maturity characteristics of certain assets and liabilities, thereby limiting the impact on earnings. The use of derivative instruments does expose our company to credit and market risk. We manage credit risk through strict counterparty credit risk limits and/or collateralization agreements. At inception, we determine if a derivative instrument meets the criteria for hedge accounting under ASC 815, "Derivatives and Hedging." Ongoing effectiveness evaluations are made for instruments that are designated and qualify as hedges. If the derivative does not qualify for hedge accounting, no assessment of effectiveness is needed.

Income Taxes

The provision for income taxes and related tax reserves is based on our consideration of known liabilities and tax contingencies for multiple taxing authorities. Known liabilities are amounts that will appear on current tax returns, amounts that have been agreed to in revenue agent revisions as the result of examinations by the taxing authorities and amounts that will follow from such examinations but affect years other than those being examined. Tax contingencies are liabilities that might arise from a successful challenge by the taxing authorities taking a contrary position or interpretation regarding the application of tax law to our tax return filings. Factors considered in estimating our liability are results of tax audits, historical experience, and consultation with tax attorneys and other experts.

ASC 740 ("ASC 740"), "Income Taxes," clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribed recognition threshold and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on a tax return. The impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Additionally, ASC 740 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

Goodwill and Intangible Assets

Under the provisions of ASC 805, "Business Combinations," we record all assets and liabilities acquired in purchase acquisitions, including goodwill and other intangible assets, at fair value. Determining the fair value of assets and liabilities requires certain estimates. At December 31, 2009, we had goodwill of \$166.7 million and intangible assets of \$24.6 million.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

In accordance with ASC 350, "Intangibles - Goodwill and Other," indefinite-life intangible assets and goodwill are not amortized. Rather, they are subject to impairment testing on an annual basis, or more often if events or circumstances indicate there may be impairment. This test involves assigning tangible assets and liabilities, identified intangible assets and goodwill to reporting units and comparing the fair value of each reporting unit to its carrying amount. If the fair value is less than the carrying amount, a further test is required to measure the amount of the impairment. We have elected to test for goodwill impairment in the third quarter of each calendar year. The results of the impairment test performed as of July 31, 2009, our last annual measurement date, did not indicate any impairment.

The goodwill impairment test is a two-step process, which requires us to make judgments in determining what assumptions to use in the calculation. Assumptions, judgments and estimates about future cash flows and discount rates are complex and often subjective. They can be affected by a variety of factors, including, among others, economic trends and market conditions, changes in revenue growth trends or business strategies, unanticipated competition, discount rates, technology, or government regulations. In assessing the fair value of our reporting units, the volatile nature of the securities markets and industry requires us to consider the business and market cycle and assess the stage of the cycle in estimating the timing and extent of future cash flows. In addition to discounted cash flows, we consider other information such as public market comparables and multiples of recent mergers and acquisitions of similar businesses. Although we believe the assumptions, judgments and estimates we have made in the past have been reasonable and appropriate, different assumptions, judgments and estimates could materially affect our reported financial results.

Identifiable intangible assets, which are amortized over their estimated useful lives, are tested for potential impairment whenever events or changes in circumstances suggest that the carrying value of an asset or asset group may not be fully recoverable.

Recent Accounting Pronouncements

See Note 2 of the Notes to Consolidated Financial Statements for information regarding the effect of new accounting pronouncements on our consolidated financial statements.

Off-balance Sheet Arrangements

Information concerning our off-balance sheet arrangements is included in Note 22 of the Notes to Consolidated Financial Statements. Such information is hereby incorporated by reference.

Dilution

As of December 31, 2009, there were 945,537 shares of our common stock issuable on outstanding options, with an average weighted exercise price of \$7.94, and 7,088,598 outstanding stock unit grants, with each unit representing the right to receive shares of our common stock at a designated time in the future. The restricted stock units vest on an annual basis over the next three to eight years, and are distributable, if vested, at future specified dates. Of the outstanding restricted stock unit awards, 2,064,136 shares are currently vested and 5,024,462 are unvested. Assuming vesting requirements are met, the Company anticipates that 909,714 shares under these awards will be distributed in 2010, 1,053,436 will be distributed in 2011, 1,176,091 will be distributed in 2012, and the balance of 3,949,357 will be distributed thereafter.

An employee will realize income as a result of an award of stock units at the time shares are distributed in an amount equal to the fair market value of such shares at that time, and we are entitled to a corresponding tax deduction in the year of such issuance. Unless an employee elects to satisfy such withholding in another manner, such as by paying the amount in cash or by delivering shares of Stifel Financial Corp. common stock already owned by such person and held by such person for at least six months, we may satisfy tax withholding obligations on income associated with such grants by reducing the number of shares otherwise deliverable in connection with such awards, such reduction to be calculated based on a current market price of our common stock. Based on current tax law, we anticipate that the shares issued when the awards are paid to the employees will be reduced by approximately 35% to satisfy such withholding obligations, so that approximately 65% of the total restricted stock units that are distributable in any particular year will be converted into issued and outstanding shares.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Contractual Obligations

The following table sets forth our contractual obligations to make future payments as of December 31, 2009 (in thousands):

	Total
	2010
	2011
	2012
	2013
	2014
	Thereafter
Debenture to Stifel Financial Capital Trust II (1)	
\$	35,000
\$	35,000
\$	-
\$	

	-
\$	-
\$	-
\$	-
Interest on debenture (1)	57,500
	2,233
	2,233
	2,233
	2,233
	353

	2,233
	46,335
Debt to Stifel Financial Capital Trust III (2)	
	35,000
	-
	-
	35,000
	-
	-
	-
Interest on debt (2)	

64,760

2,377

2,377

2,377

2,377

2,377

52,875

Debenture to Stifel Financial Capital Trust IV (3)

12,500

-

355

	-
	12,500
	-
	-
	-
Interest on debenture (3)	
	46,603
	1,695
	1,695
	1,695
	356

1,695

1,695

38,128

Stifel CAPCO LLC II non interest-bearing
notes (4)

9,398

9,398

-

-

-

-

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

	-
Liabilities subordinated to general creditors	
	10,082
	1,391
	1,474
	1,722
	2,328
	3,167
	-
Operating leases	
	200,035
	358

	38,000
	32,515
	27,359
	23,958
	20,122
	58,081
Purchase obligations	35,088
	23,507
	9,009
	359

	2,318
	236
	16
	2
Certificates of deposit	18,245
	15,711
	814
	918
	632
	360

	170
	-
Contingent earn-out to UBS Financial Services, Inc. related to branch acquisition (5)	
	8,300
	-
	8,300
	-
	-
	-
	-
Commitment to fund partnership interests	

1,300

-

-

-

-

-

-

Commitments to extend credit - Stifel Bank (6)

119,865

-

362

	-
	-
	-
	-
	-
Federal Home Loan Bank advances	2,000
	2,000
	-
	-

	-
	-
	-
Voluntary plan to repurchase ARS (7)	
	119,508
	41,375
	78,133
	-
	-
	-
	364

	-
\$	775,184
\$	172,687
\$	136,550
\$	86,122
\$	33,459
\$	29,780
\$	195,421

(1) Debenture to Stifel Financial Capital Trust II is callable at par no earlier than September 30, 2010, but no later than September 30, 2035. The interest is payable at a fixed interest rate equal to 6.38% per annum from the issue date to September 30, 2010 and then will be payable at a floating interest rate equal to three-month London Interbank Offered Rate ("LIBOR") plus 1.70% per annum. Thereafter interest rate assumes no increase.

(2) Debenture to Stifel Financial Capital Trust III is callable at par no earlier than June 6, 2012, but no later than June 6, 2037. The interest is payable, in arrears, at a fixed interest rate equal to 6.79% per annum from the issue date to June 6, 2012 and then will be payable at a floating interest rate equal to three-month LIBOR plus 1.85% per annum. Thereafter interest rate assumes no increase.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

(3) Debenture to Stifel Financial Capital Trust IV is callable at par no earlier than September 6, 2012, but no later than September 6, 2037. The interest is payable, in arrears, at a fixed interest rate equal to 6.78% per annum from the issue date to September 6, 2012 and then will be payable at a floating interest rate equal to three-month LIBOR plus 1.85% per annum. Thereafter interest rate assumes no increase.

(4) We invested in zero coupon U.S. government securities in an amount sufficient to accrete to the repayment amount of the notes, which are placed in an irrevocable trust. At December 31, 2009, these securities had a carrying value of \$8,332 and are included under the caption investments on the consolidated statements of financial condition.

(5) Information concerning the UBS transaction is included in Note 3 of the Notes to the Consolidated Financial Statements. Such information is hereby incorporated by reference.

(6) Commitments to extend credit include commitments to originate loans, outstanding standby letters of credit and lines of credit which may expire without being funded and as such do not represent estimates of future cash flow.

(7) Stifel Nicolaus' modified ARS repurchase offer where it will complete the repurchase of auction rate securities, at par, from its retail clients who purchased ARS through Stifel Nicolaus before the collapse of the ARS market in early 2008 no later than December 31, 2011. The amounts estimated for repurchase assume no issuer redemptions.

The contractual obligations table excludes uncertain tax position liabilities of \$1,912 because we cannot make a reliable estimate of the timing of cash payments.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Risk Management

Risks are an inherent part of our business and activities. Management of these risks is critical to our soundness and profitability. Risk management at our company is a multi-faceted process that requires communication, judgment, and knowledge of financial products and markets. Our senior management group takes an active role in the risk management process and requires specific administrative and business functions to assist in the identification, assessment, monitoring, and control of various risks. The principal risks involved in our business activities are: market (interest rates and equity prices), credit, operational, and regulatory and legal.

Market Risk

The potential for changes in the value of financial instruments owned by our company resulting from changes in interest rates and equity prices is referred to as "market risk." Market risk is inherent to financial instruments, and accordingly, the scope of our market risk management procedures includes all market risk-sensitive financial instruments.

We trade tax-exempt and taxable debt obligations, including U.S. treasury bills, notes, and bonds; U.S. government agency and municipal notes and bonds; bank certificates of deposit; mortgage-backed securities; and corporate obligations. We are also an active market-maker in over-the-counter equity securities. In connection with these activities, we may maintain inventories in order to ensure availability and to facilitate customer transactions.

Changes in value of our financial instruments may result from fluctuations in interest rates, credit ratings, equity prices, and the correlation among these factors, along with the level of volatility.

We manage our trading businesses by product and have established trading departments that have responsibility for each product. The trading inventories are managed with a view toward facilitating client transactions, considering the risk and profitability of each inventory position. Position limits in trading inventory accounts are established and monitored on a daily basis. We monitor inventory levels and results of the trading departments, as well as inventory aging, pricing, concentration, and securities ratings.

We are also exposed to market risk based on our other investing activities. These investments consist of investments in private equity partnerships, start up companies, venture capital investments and zero coupon U.S. government securities and are included under the caption "Investments" on the consolidated statements of financial condition.

Interest Rate Risk

We are exposed to interest rate risk as a result of maintaining inventories of interest rate-sensitive financial instruments and from changes in the interest rates on our interest-earning assets (including client loans, stock borrow activities, investments, and inventories) and our funding sources (including client cash balances, stock lending activities, bank borrowings, and resale agreements), which finance these assets. The collateral underlying financial instruments at the broker-dealer is repriced daily, thus requiring collateral to be delivered as necessary. Interest rates on client balances and stock borrow and lending produce a positive spread to our company, with the rates generally fluctuating in parallel.

We manage our inventory exposure to interest rate risk by setting and monitoring limits and, where feasible, hedging with offsetting positions in securities with similar interest rate risk characteristics. While a significant portion of our securities inventories have contractual maturities in excess of five years, these inventories, on average, turn over several times per year.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Additionally, we monitor, on a daily basis, the Value-at-Risk ("VaR") in our institutional Capital Markets trading portfolios using daily market data for the previous twelve months and report VaR at a 95% confidence level. VaR is a statistical technique used to estimate the probability of portfolio losses based on the statistical analysis of historical price trends and volatility. This model assumes that historical changes in market conditions are representative of future changes, and trading losses on any given day could exceed the reported VaR by significant amounts in unusual volatile markets. Further, the model involves a number of assumptions and inputs. While we believe that the assumptions and inputs we use in our risk model are reasonable, different assumptions and inputs could produce materially different VaR estimates.

The following table sets forth the high, low, and daily average VaR for our institutional fixed income trading portfolio during the year ended December 31, 2009 and the daily VaR at December 31, 2009 and 2008 (*in thousands, except rates*):

Year Ended December 31, 2009

VaR calculation at

High

Low

**Daily
Average**

**December 31,
2009**

December 31,
2008

Daily VaR

\$

5,849

\$

278

\$

1,097

369

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

\$	766
\$	467
Related portfolio value	
\$	127,620
\$	91,566
\$	128,730
\$	138,053
\$	19,157
VaR as a percentage of portfolio value	370

%	4.58
%	0.30
%	0.85
%	0.55
%	2.44

Stifel Bank's interest rate risk is principally associated with changes in market interest rates related to residential, consumer, and commercial lending activities, as well as FDIC-insured deposit accounts to customers of our broker-dealer subsidiaries and to the general public.

Our primary emphasis in interest rate risk management for Stifel Bank is the matching of assets and liabilities of similar cash flow and repricing time frames. This matching of assets and liabilities reduces exposure to interest rate movements and aids in stabilizing positive interest spreads. Stifel Bank has established limits for acceptable interest rate risk and acceptable portfolio value risk. To ensure that Stifel Bank is within the limits established for net interest margin, an analysis of net interest margin based on various shifts in interest rates is prepared each quarter and presented to Stifel Bank's Board of Directors. Stifel Bank utilizes a third party vendor to analyze the available data.

The following table illustrates the estimated change in net interest margin at December 31, 2009 based on shifts in interest rates of up to positive 200 basis points and negative 200 basis points:

**Hypothetical change
in interest rates**

Projected change in net interest margin

+200

37.2

%

+100

19.2

%

0

0.00%

-100

n/a

-200

n/a

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

The following GAP Analysis table indicates Stifel Bank's interest rate sensitivity position at December 31, 2009 (*in thousands*):

Repricing Opportunities

0-6 Months

7-12 Months

1-5 Years

5+ Years

Interest-earning assets:

Loans

\$

393,605

\$

9,899

\$

375

25,437

\$

7,301

Securities

89,015

38,053

214,624

236,478

Interest-bearing cash

112,596

-

376

-

-

\$

595,216

\$

47,952

\$

240,061

\$

243,779

Interest-bearing liabilities:

Transaction accounts and savings

\$

616,828

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

\$

21,062

\$

356,220

\$

39,469

Certificates of deposit

15,106

590

2,548

-

Borrowings

2,000

379

	-
	-
	-
\$	633,934
\$	21,652
\$	358,768
\$	39,469
GAP	

(38,718

)

26,300

(118,707

)

204,310

Cumulative GAP

\$

(38,718

)

\$

(12,418

)

\$

(131,125

)

\$

73,185

We maintain a risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings caused by interest rate volatility. Our goal is to manage sensitivity to changes in rates by hedging the maturity characteristics of Fed-funds based affiliated deposits, thereby limiting the impact on earnings. By using derivative instruments, we are exposed to credit and market risk on those derivative positions. We manage the market risk associated with interest rate contracts by establishing and monitoring limits as to the types and degree of risk that may be undertaken. Our interest rate hedging strategies may not work in all market environments and as a result may not be effective in mitigating interest rate risk.

Equity Price Risk

We are exposed to equity price risk as a consequence of making markets in equity securities. We attempt to reduce the risk of loss inherent in our inventory of equity securities by monitoring those security positions constantly throughout each day.

Our equity securities inventories are repriced on a regular basis, and there are no unrecorded gains or losses. Our activities as a dealer are client-driven, with the objective of meeting clients' needs while earning a positive spread.

Credit Risk

We are engaged in various trading and brokerage activities, with the counterparties primarily being broker-dealers. In the event counterparties do not fulfill their obligations, we may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. We manage this risk by imposing and monitoring position limits for each counterparty, monitoring trading counterparties, conducting regular credit reviews of financial counterparties, reviewing security concentrations, holding and marking to market collateral on certain transactions, and conducting business through clearing organizations, which guarantee performance.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Our client activities involve the execution, settlement, and financing of various transactions on behalf of our clients. Client activities are transacted on either a cash or margin basis. Credit exposure associated with our private client business consists primarily of customer margin accounts, which are monitored daily and are collateralized. We monitor exposure to industry sectors and individual securities and perform analyses on a regular basis in connection with our margin lending activities. We adjust our margin requirements if we believe our risk exposure is not appropriate based on market conditions.

We have accepted collateral in connection with resale agreements, securities borrowed transactions, and customer margin loans. Under many agreements, we are permitted to sell or repledge these securities held as collateral and use these securities to enter into securities lending arrangements or to deliver to counterparties to cover short positions. At December 31, 2009, the fair value of securities accepted as collateral where we are permitted to sell or repledge the securities was \$792.1 million, and the fair value of the collateral that had been sold or repledged was \$201.6 million.

By using derivative instruments, we are exposed to credit and market risk on those derivative positions. Credit risk is equal to the fair value gain in a derivative, if the counterparty fails to perform. When the fair value of a derivative contract is positive, this generally indicates that the counterparty owes our company and, therefore, creates a repayment risk for our company. When the fair value of a derivative contract is negative, we owe the counterparty and, therefore, have no repayment risk. We minimize the credit (or repayment) risk in derivative instruments by entering into transactions with high-quality counterparties that are reviewed periodically by senior management.

Stifel Bank extends credit to individual and commercial borrowers through a variety of loan products, including residential and commercial mortgage loans, home equity loans, construction loans and non-real-estate commercial and consumer loans. Bank loans are generally collateralized by real estate, real property, or other assets of the borrower. Stifel Bank's loan policy includes criteria to adequately underwrite, document, monitor, and manage credit risk. Underwriting requires reviewing and documenting the fundamental characteristics of credit including character, capacity to service the debt, capital, conditions, and collateral. Benchmark capital and coverage ratios are utilized which include liquidity, debt service coverage, credit, working capital, and capital to asset ratios. Lending limits are established to include individual, collective, committee, and board authority. Monitoring credit risk is accomplished through defined loan review procedures including frequency and scope.

We are subject to concentration risk if we hold large positions, extend large loans to, or have large commitments with a single counterparty, borrower, or group of similar counterparties or borrowers (i.e., in the same industry). Securities purchased under agreements to resell consist of securities issued by the U.S. government or its agencies. Receivables from and payables to clients and stock borrow and lending activities both with a large number of clients and counterparties, and any potential concentration is carefully monitored. Stock borrow and lending activities are executed under master netting agreements, which gives our company right of offset in the event of counterparty default. Inventory and investment positions taken and commitments made, including underwritings, may involve exposure to individual issuers and businesses. We seek to limit this risk through careful review of counterparties and borrowers and the use of limits established by our senior management group, taking into consideration factors including the financial strength of the counterparty, the size of the position or commitment, the expected duration of the position or commitment, and other positions or commitments outstanding.

Operational Risk

Operational risk generally refers to the risk of loss resulting from our operations, including, but not limited to, improper or unauthorized execution and processing of transactions, deficiencies in our technology or financial operating systems, and inadequacies or breaches in our control processes. We operate different businesses in diverse markets and are reliant on the ability of our employees and systems to process a large number of transactions. These risks are less direct than credit and market risk, but managing them is critical, particularly in a rapidly changing environment with increasing transaction volumes. In the event of a breakdown or improper operation of systems or improper action by employees, we could suffer financial loss, regulatory sanctions, and damage to our reputation. In order to mitigate and control operational risk, we have developed and continue to enhance specific policies and procedures that are designed to identify and manage operational risk at appropriate levels throughout the organization and within such departments as Accounting, Operations, Information Technology, Legal, Compliance, and Internal Audit. These control mechanisms attempt to ensure that operational policies and procedures are being followed and that our various businesses are operating within established corporate policies and limits. Business continuity plans exist for critical systems, and redundancies are built into the systems as deemed appropriate.

Regulatory and Legal Risk

Legal risk includes the risk of large numbers of private client group customer claims for sales practice violations. While these claims may not be the result of any wrongdoing, we do, at a minimum, incur costs associated with investigating and defending against such claims. See further discussion on our legal reserves policy under "Critical Accounting Policies and Estimates" in Item 7, Part II and "Legal Proceedings" in Item 3, Part I of this report. In addition, we are subject to potentially sizable adverse legal judgments or arbitration awards, and fines, penalties, and other sanctions for non-compliance with applicable legal and regulatory requirements. We are generally subject to extensive regulation by the SEC, FINRA, and state securities regulators in the different jurisdictions in which we conduct business. As a bank holding company, we are subject to regulation by the Federal Reserve. Stifel Bank is subject to regulation by the FDIC. As a result, we are subject to a risk of loss resulting from failure to comply with banking laws. We have comprehensive procedures addressing issues such as regulatory capital requirements, sales and trading practices, use of and safekeeping of customer funds, the extension of credit, including margin loans, collection activities, money laundering, and record keeping. We act as an underwriter or selling group member in both equity and fixed income product offerings. Particularly when acting as lead or co-lead manager, we have potential legal exposure to claims relating to these securities offerings. To manage this exposure, a committee of senior executives review proposed underwriting commitments to assess the quality of the offering and the adequacy of due diligence investigation.

Effects of Inflation

Our assets are primarily monetary, consisting of cash, securities inventory, and receivables from customers and brokers and dealers. These monetary assets are generally liquid and turn over rapidly, and consequently, are not significantly affected by inflation. However, the rate of inflation affects various expenses of our company, such as employee compensation and benefits, communications and office supplies, and occupancy and equipment rental, which may not be readily recoverable in the price of services we offer to our clients. Further, to the extent inflation results in rising interest rates and has other adverse effects upon the securities markets, it may adversely affect our financial position and results of operations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Reports of Independent Registered Public Accounting Firms

87

Consolidated Statements of Financial Condition

89

Consolidated Statements of Operations

91

Consolidated Statements of Shareholders' Equity

92

Consolidated Statements of Cash Flows

94

Notes to the Consolidated Financial Statements

Note 1 Nature of Operation and Basis of Presentation

97

Note 2 Summary of Significant Accounting Policies

98

Note 3 Acquisitions

106

Note 4 Assets and Liabilities Held for Sale

107

Note 5 Receivables from and Payables to Brokers, Dealers and Clearing Organizations

107

Note 6 Fair Value of Financial Instruments

108

Note 7 Trading Securities Owned and Trading Securities Sold, But Not Yet Purchased

116

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Note 8 Available-for-Sale and Held-to-Maturity Securities

117

Note 9 Bank Loans

121

Note 10 Fixed Assets

122

Note 11 Goodwill and Intangible Assets

123

Note 12 Short-Term Borrowings from Banks

124

Note 13 Bank Deposits

125

Note 14 Federal Home Loan Bank Advances and Other Secured Financing

126

Note 15 Debentures to Stifel Financial Capital Trusts

126

Note 16 Derivative Instruments and Hedging Activities

127

Note 17 Liabilities Subordinated to Claims of General Creditors

129

Note 18 Commitments and Contingencies

129

Note 19 Legal Proceedings

131

Note 20 Regulatory Capital Requirements

132

Note 21 Employee Incentive, Deferred Compensation and Retirement Plans

133

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Note 22 Off-Balance Sheet Credit Risk

136

Note 23 Income Taxes

138

Note 24 Segment Reporting

140

Note 25 Other Comprehensive Income

142

Note 26 Earnings Per Share

143

Note 27 Shareholders' Equity

143

Note 28 Variable Interest Entities

144

Note 29 Subsequent Events

146

Note 30 Quarterly Financial Information (Unaudited)

146

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of

Stifel Financial Corp.

We have audited the accompanying consolidated statements of financial condition of Stifel Financial Corp. (the "Company") as of December 31, 2009 and 2008, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the two years in the period ended December 31, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Stifel Financial Corp. at December 31, 2009 and 2008, and the consolidated results of its operations and its cash flows for each of the two years in the period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

We also have audited the adjustments to the 2007 financial statements to retrospectively adjust the disclosures for a change in the composition of reportable segments in 2009, as described in Note 24. Our procedures included (1) comparing the adjustment amounts to the Company's underlying accounting records and (2) testing the mathematical accuracy of the reconciliations of the segment amounts to the financial statement totals. In our opinion, such retrospective adjustments are appropriate and have been properly applied. However, we were not engaged to audit, review, or apply any procedures to the 2007 financial statements of the Company other than with respect to the retrospective adjustments related to the change in composition of reportable segments and, accordingly, we do not express an opinion or any other form of assurance on the 2007 financial statements taken as a whole.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2009, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2010, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Chicago, Illinois

February 26, 2010

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of

Stifel Financial Corp.

St. Louis, Missouri

We have audited, before the effects of the retrospective adjustments to the disclosures for a change in the composition of reportable segments discussed in Note 24 to the consolidated financial statements, the accompanying consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows of Stifel Financial Corp. and subsidiaries (the "Company") for the year ended December 31, 2007 (the 2007 consolidated financial statements before the effects of the retrospective adjustments discussed in Note 24 to the consolidated financial statements are not presented herein). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such 2007 consolidated financial statements, before the effects of the retrospective adjustments to the disclosures for a change in the composition of reportable segments discussed in Note 24 to the consolidated financial statements, present fairly, in all material respects, Stifel Financial Corp. and subsidiaries' results of operations and cash flows for the year ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

We were not engaged to audit, review, or apply any procedures to the retrospective adjustments to the disclosures for a change in the composition of reportable segments discussed in Note 24 to the consolidated financial statements and, accordingly, we do not express an opinion or any other form of assurance about whether such retrospective adjustments are appropriate and have been properly applied. Those retrospective adjustments were audited by other auditors.

/s/ Deloitte & Touche LLP

St Louis, Missouri

February 28, 2008

STIFEL FINANCIAL CORP.

Consolidated Statements of Financial Condition

December 31,

(in thousands)

2009

2008

Assets

Cash and cash equivalents

\$

161,820

\$

239,725

Cash segregated for regulatory purposes

19

40

Receivables:

Brokerage clients, net

	383,222
	280,143
Broker, dealers and clearing organizations	
	309,609
	111,575
Securities purchased under agreements to resell	
	124,854
	17,723
Trading securities owned, at fair value (includes securities pledged of \$366,788 and \$123,415, respectively)	
	454,891
	392

122,576

Available-for-sale securities, at fair value

578,488

50,397

Held-to-maturity securities, at amortized cost

7,574

7,574

Loans held for sale

91,117

31,246

393

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Bank loans, net

335,157

181,269

Bank foreclosed assets held for sale, net of estimated cost to sell

3,143

2,326

Investments

109,403

75,465

Fixed assets, net

394

62,115

47,765

Goodwill

166,725

128,278

Intangible assets, net

24,648

15,984

Loans and advances to financial advisors and other employees, net

185,123

395

105,767

Deferred tax assets, net

53,462

47,337

Other assets

115,986

92,955

Total Assets

\$

3,167,356

\$

1,558,145

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Financial Condition (continued)

December 31,

(in thousands, except share and per share amounts)

2009

2008

Liabilities and Shareholders' Equity

Short-term borrowings from banks

\$

90,800

\$

-

Payables:

Customers

214,883

156,495

Brokers, dealers and clearing organizations

399

90,460

29,691

Drafts

66,964

49,401

Securities sold under agreements to repurchase

122,533

2,216

Bank deposits

1,047,211

400

284,798

Federal Home Loan Bank advances

2,000

6,000

Trading securities sold, but not yet purchased, at fair value

277,370

98,934

Accrued compensation

166,346

130,037

401

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Accounts payable and accrued expenses

113,364

100,528

Debenture to Stifel Financial Capital Trust II

35,000

35,000

Debenture to Stifel Financial Capital Trust III

35,000

35,000

Debenture to Stifel Financial Capital Trust IV

402

12,500

12,500

Other

9,398

19,998

2,283,829

960,598

Liabilities subordinated to claims of general creditors

10,081

403

Shareholders' Equity:

Preferred stock - \$1 par value; authorized 3,000,000 shares; none issued

-

-

Common stock - \$0.15 par value; authorized 97,000,000 shares; issued 30,388,270 and 26,300,135 shares, respectively

4,558

3,945

Additional paid-in-capital

404

623,943

427,480

Retained earnings

244,615

168,993

Accumulated other comprehensive income/(loss)

1,302

(6,295

)

874,418

405

594,123

Treasury stock, at cost, 4,221 and 0 shares, respectively

(242

)

-

Unearned employee stock ownership plan shares, at cost, 113,885 and 146,421 shares, respectively

(730

)

(938

)

873,446

593,185

406

Total Liabilities and Shareholders' Equity

\$

3,167,356

\$

1,558,145

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Operations

Year ended December 31,

(in thousands, except per share amounts)

2009

2008

2007

Revenues:

Principal transactions

\$

458,188

\$

293,285

\$

139,248

Commissions

345,520

341,090

315,514

409

Investment banking

125,807

83,710

169,413

Asset management and service fees

112,706

119,926

101,610

Interest

46,860

410

50,148

59,071

Other income (1)

13,789

688

8,234

Total revenues

1,102,870

888,847

411

793,090

Interest expense

12,234

18,510

30,025

Net revenues

1,090,636

870,337

763,065

412

Non-interest expenses:

Compensation and benefits

718,115

582,778

543,021

Occupancy and equipment rental

89,741

67,984

57,796

Communications and office supplies

54,745

45,621

42,355

414

Commissions and floor brokerage

23,416

13,287

9,921

Other operating expenses

84,205

68,898

56,126

Total non-interest expenses

970,222

415

778,568

709,219

Income before income tax expense

120,414

91,769

416

53,846

Provision for income taxes

44,616

36,267

21,676

Net income

\$

75,798

\$

55,502

\$

32,170

Earnings per common share:

Basic

\$

2.68

\$

418

2.31

\$

1.48

Diluted

\$

2.35

\$

1.98

\$

1.25

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Weighted average number of common shares outstanding:

Basic

28,297

24,069

21,754

Diluted

32,294

420

28,073

25,723

(1) For the year ended December 31, 2009, we recorded other-than-temporary impairment losses of \$1,881. Total unrealized losses on the security recognized in other comprehensive income as a component of shareholders' equity at December 31, 2009 was \$1,129.

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Shareholders' Equity

Common Stock

Additional Paid-In

Retained

Accumulated Other Comprehensive

Treasury Stock, at

Unearned Employee Stock Ownership

Shares

Amount

Capital

Earnings

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Income/(Loss)

cost

Plan

Total

Balance at December 31, 2006

	18,038
\$	2,706
\$	124,263
\$	94,651
\$	-
\$	-
\$	

(1,355

)

\$

220,265

Comprehensive income:

Net income

-

-

-

32,170

-

-

-

32,170

Net unrealized loss on securities, net of tax

-

-

-

-

(660

)

-

-

(660

)

Total comprehensive income

-

-

-

-

-

-

-

31,510

Purchase of treasury stock

-

427

-

-

-

-

(4,165

)

-

(4,165

)

Employee stock ownership plan purchases

-

-

882

-

-

-

208

1,090

Issuance of stock for employee benefit plans

1,162

174

429

	(13,916
)	
	(79
)	
	-
	450
	-
	(13,371
)	
Stock option exercises	
	407
	61
	1,196
	430

	(1,507)
)	-
	3,220
	-
	2,970
Issuance of warrants	-
	-
	16,895
	431

-

-

-

-

16,895

Warrant exercises

-

-

(15

)

(15

)

432

-

46

-

16

Unit amortization

-

-

38,101

-

-

433

-

-

38,101

Excess tax benefit from stock-based compensation

-

-

11,841

-

-

-

-

11,841

Issuance of shares - Ryan Beck acquisition

3,701

555

101,974

-

-

-

435

-

102,529

Acceleration of deferred compensation - Ryan Beck

-

-

16,673

-

-

-

-

	16,673
Issuance of stock - private placement	
	12
	2
	198
	-
	-
	-
	-

Adoption of FIN 48

-

-

-

83

-

-

-

83

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Balance at December 31, 2007

23,320

3,498

298,092

125,303

(660

)

(450

)

(1,146

)

424,637

Comprehensive income:

439

Net income

-

-

-

55,502

-

-

-

55,502

Net unrealized loss on securities, net of tax

-

-

-

-

(6,634

)

-

-

(6,634

)

Reclassification adjustment for losses included in net income, net of tax

-

-

-

-

999

-

-

999

Total comprehensive income

-

-

-

-

-

-

-

49,867

Purchase of treasury stock

-

-

-

-

	-
	(12,141)
)	
	-
	(12,141)
)	
Employee stock ownership plan purchases	

-

-

1,004

-

-

-

208

1,212

Issuance of stock for employee benefit plans

811

122

(21,480

)

(9,951

)

-

446

9,874

-

(21,435

)

Stock option exercises

243

37

1,062

(1,861

)

-

2,657

447

-

1,895

Warrant exercises

-

-

(4

)

-

-

4

Unit amortization

52,593

52,593

Excess tax benefit from stock-based compensation

-

-

14,840

-

-

-

-

14,840

450

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Ryan Beck contingent earn-out

289

43

11,277

-

-

56

-

11,376

Issuance of stock - public offering

451

1,495

224

64,145

-

-

-

-

64,369

Extinguishment of Stifel Financial Capital Trust IV

142

452

21

5,951

-

-

-

-

5,972

Balance at December 31, 2008

26,300

\$

453

3,945

\$

427,480

\$

168,993

\$

(6,295

)

\$

-

\$

(938

)

\$

593,185

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Shareholders' Equity (continued)

Common Stock

Additional Paid-In

Retained

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Accumulated Other Comprehensive

Treasury Stock, at

Unearned Employee Stock Ownership

Shares

Amount

Capital

Earnings

income/(loss)

cost

Plan

Total

Balance at December 31, 2008

	26,300
\$	
	3,945
\$	
	427,480
\$	
	168,993
\$	
	(6,295
)	
\$	
	-
\$	
	(938
)	
\$	
	593,185

Comprehensive income:

Net income

-

-

-

75,798

-

-

-

75,798

Unrealized gain on securities, net of tax

-

-

-

-

7,517

-

-

7,517

Unrealized loss on cash flow hedging activities, net of tax

80

80

Total comprehensive income

-

-

-

-

-

-

-

83,395

Purchase of treasury stock

-

-

572

-

-

(572

)

-

-

Employee stock ownership plan purchases

-

-

1,347

-

-

Issuance of stock for employee benefit plans

-

208

1,555

738

110

(7,607

)

(72

)

-

102

465

-

(7,467
)
Stock option exercises

354

53

986

(104
)

-

228

-

1,163

Unit amortization

-

-

42,502

-

-

-

-

42,502

Excess tax benefit from stock-based compensation

-

-

13,337

-

-

-

-

13,337

468

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Ryan Beck contingent earn-out

271

41

9,260

-

-

-

-

9,301

Issuance of stock - at the market offering

469

1,000

150

44,544

-

-

-

-

44,694

Issuance of stock - public offering

1,725

470

259

91,511

-

-

-

-

91,770

Warrant exercises

-

471

-

11

-

-

-

-

11

Balance at December 31, 2009

30,388

\$

4,558

472

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

\$

623,943

\$

244,615

\$

1,302

\$

(242

)

\$

(730

)

\$

873,446

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Cash Flows

Year Ended December 31,

(in thousands)

2009

2008

2007

Cash Flows from Operating Activities:

Net income

\$

75,798

\$

55,502

\$

32,170

Adjustments to reconcile net income to net cash (used in) provided by operating activities:

Depreciation and amortization

25,978

17,027

15,663

Amortization of loans and advances to financial advisors and other employees

33,408

477

15,203

16,578

Accretion of discounts on available for sale securities

866

(593

)

-

Provision for loan losses and allowance for loans and advances to financial advisors and other employees

298

1,801

478

1,275

Deferred income taxes

(10,270

)

(6,168

)

(22,070

)

Excess tax benefits from stock-based compensation

(13,337

)

(14,840

)

(11,841

479

)

Warrant valuation adjustment

-

-

455

Gain on extinguishment of debt

-

(6,662

)

(3,750

)

Stock-based compensation

480

47,962

54,356

56,381

(Gains)/losses on investments

14,303

10,843

(1,225

)

Other, net

2,455

481

254

46

Decrease/(increase) in operating assets, net of assets acquired:

Receivables:

Brokerage clients

(79,688

)

215,146

(221,017

)

Brokers, dealers and clearing organizations

(198,034

)

70,036

(45,231

483

)

Securities purchased under agreements to resell

(107,131

)

(4,478

)

142,900

Loans originated as held for sale

(874,786

)

(322,809

)

(20,279

)

Proceeds from mortgages held for sale

848,045

293,544

17,173

Trading securities owned, including those pledged

(332,315

)

4,624

285,546

Loans and advances to financial advisors and other employees

(108,327

)

485

	(49,065)
)	
	(45,072)
)	
Other assets	
	(14,115)
)	
	6,475
	15,919

Increase/(decrease) in operating liabilities, net of liabilities assumed:

Payables:

Customers

58,388

(3,245

)

31,064

487

Brokers, dealers and clearing organizations

62,181

(21,594

)

5,111

Drafts

17,563

(2,081

)

16,582

Trading securities sold, but not yet purchased

488

178,436

61,616

(226,627

)

Other liabilities and accrued expenses

25,072

(24,599

)

33,003

Net cash (used in) provided by operating activities

\$

(347,250

)

489

\$

350,293

\$

72,754

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Cash Flows (continued)

Year Ended December 31,

(in thousands)

2009

2008

2007

Cash Flows from Investing Activities:

Proceeds from:

Sale or maturity of investments

\$

57,515

\$

63,428

\$

64,065

Maturities, calls and principal paydowns on available for sale securities

49,259

43,950

-

Sale of property

-

766

1,131

Sale of bank foreclosed assets held for sale

3,734

493

1,340

691

Decrease/(increase) in bank loans, net

(2,626

)

(60,314

)

(27,103

)

Excess cash acquired over cash disbursed in Ryan Beck acquisition

-

-

494

3,545

Payments for:

Purchase of available for sale securities

(568,910

)

(24,909

)

(70,541

495

)

Acquisitions, net

(251,652

)

(10,589

)

(33,329

)

Purchase of investments

(105,275

)

(76,396

)

(63,441

)

Purchase of fixed assets

(27,892

)

(21,647

)

(25,607

)

Purchase of bank foreclosed loans held for sale

(4,966

)

(2,093

)

(123

)

Net cash used in investing activities

(850,813

)

497

(86,464

)

(150,712

)

Cash Flows from Financing Activities:

Net proceeds/(payments) for short-term borrowings from banks

90,800

(127,850

498

)

(67,750

)

Securities sold under agreements to repurchase

120,317

2,216

-

Increase in bank deposits, net

762,413

92,317

97,215

499

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Increase/(decrease) in securities loaned

(1,412

)

(114,211

)

47,619

Issuance of debentures to Stifel Financial Capital Trust III

-

-

35,000

Issuance of debentures to Stifel Financial Capital Trust IV

500

-

-

35,000

Excess tax benefits from stock-based compensation

13,337

14,840

11,841

Proceeds from offering of common stock, net

136,464

501

64,369

200

Issuance of common stock

2,719

2,580

1,856

Reissuance of treasury stock

820

727

502

628

Proceeds from/(payments to) Federal Home Loan Bank advances and other secured financing

(4,000

)

6,000

(11,035

)

Calling of Stifel Financial Capital Trust I

-

-

(34,500

503

)

Extinguishment of debenture to Stifel Financial Capital Trust IV

-

-

(6,250

)

Extinguishment of subordinated debt

(1,300

)

(914

)

(720

)

Repurchase of stock for treasury

504

-

(12,141

)

(4,165

)

Net cash provided by (used in) financing activities

1,120,158

(72,067

)

104,939

(Decrease)/increase in cash and cash equivalents

(77,905)

)

197,762

26,981

Cash and cash equivalents at beginning of year

239,725

47,963

20,982

Cash and cash equivalents at end of year

\$

161,820

\$

239,725

\$

47,963

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Cash Flows (continued)

Year Ended December 31,

(in thousands)

2009

2008

2007

Supplemental disclosure of cash flow information:

Cash paid for income taxes, net of refunds

\$

15,617

\$

31,966

\$

21,031

Cash paid for interest

510

12,066

19,375

29,316

Noncash investing and financing activities:

Units, net of forfeitures

\$

89,633

511

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

\$

65,609

\$

73,267

Payment of Ryan Beck contingent earn-out

9,301

11,376

-

Liabilities subordinated to claims of general creditors

3,166

4,050

512

1,474

Extinguishment of debenture to Stifel Financial Capital Trust IV

-

5,975

-

Stock and warrants issued for Ryan Beck acquisition

-

-

118,969

513

Exchange of Ryan Beck appreciation units for restricted stock units

-

-

16,895

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Notes to Consolidated Financial Statements

(in thousands, except share and per share amounts)

NOTE 1 - Nature of Operations and Basis of Presentation

Nature of Operations

Stifel Financial Corp. (the "Parent"), through its wholly-owned subsidiaries, principally Stifel, Nicolaus & Company, Incorporated ("Stifel Nicolaus"), Century Securities Associates, Inc. ("CSA"), Stifel Nicolaus Limited ("SN Ltd"), and Stifel Bank & Trust ("Stifel Bank"), is principally engaged in retail brokerage, securities trading, investment banking, investment advisory, retail, consumer and commercial banking and related financial services throughout the United States. Although we have offices throughout the United States and three European cities, our major geographic area of concentration is in the Midwest and Mid-Atlantic regions, with a growing presence in the Northeast, Southeast and Western United States. Our company's principal customers are individual investors, corporations, municipalities, and institutions.

Basis of Presentation

The consolidated financial statements include Stifel Financial Corp. and its wholly-owned subsidiaries, principally Stifel Nicolaus & Company, Incorporated. All material intercompany balances and transactions have been eliminated. Unless otherwise indicated, the terms "we," "us," "our," or "our company" in this report refer to Stifel Financial Corp. and its wholly-owned subsidiaries.

The accompanying consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles, which require management to make certain estimates and assumptions that affect the reported amounts. We consider significant estimates, which are most susceptible to change and impacted significantly by judgments, assumptions and estimates, to be: the fair value of investments; the accrual for litigation; the allowance for doubtful receivables from loans and advances to financial advisors and other employees; the allowance for loan losses; derivative instruments and hedging activities; the fair value of goodwill and intangible assets; the provision for income taxes and related tax reserves; and the estimation of forfeitures associated with stock-based compensation. Actual results could differ from those estimates.

Certain amounts from prior periods have been reclassified to conform to the current period's presentation. The effect of these reclassifications on our company's previously reported consolidated financial statements was not material.

Consolidation Policies

The consolidated financial statements include the accounts of Stifel Financial Corp. and its subsidiaries. We also have investments or interests in other entities for which we must evaluate whether to consolidate by determining whether we have a controlling financial interest or are considered to be the primary beneficiary. In determining whether to consolidate these entities or not, we determine whether the entity is a voting interest entity or a variable interest entity ("VIE").

Voting Interest Entity. Voting interest entities are entities that have (i) total equity investment at risk sufficient to fund expected future operations independently; and (ii) equity holders who have the obligation to absorb losses or receive residual returns and the right to make decisions about the entity's activities. We consolidate voting interest entities when we determine that there is a controlling financial interest, usually ownership of all, or a majority of, the voting interest.

Variable Interest Entity. VIEs are entities that lack one or more of the characteristics of a voting interest entity. We are required to consolidate VIEs in which we are deemed to be the primary beneficiary. The primary beneficiary is defined as the entity that has a variable interest, or a combination of variable interests, that will either: (i) absorb a majority of the VIEs expected losses; (ii) receive a majority of the VIEs expected returns; or (iii) both.

We determine whether we are the primary beneficiary of a VIE by first performing a qualitative analysis of the VIE's expected losses and expected residual returns. This analysis includes a review of, among other factors, the VIE's capital structure, contractual terms, which interests create or absorb variability, related party relationships and the design of the VIE. Where qualitative analysis is not conclusive, we perform a quantitative analysis. We reassess our initial evaluation of an entity as a VIE and our initial determination of whether we are the primary beneficiary of a VIE upon the occurrence of certain reconsideration events.

NOTE 2 - Summary of Significant Accounting Policies

Cash and Cash Equivalents

We consider all highly liquid investments with original maturities of three months or less that are not segregated to be cash equivalents. Cash and cash equivalents include money market mutual funds, deposits with banks, certificates of deposit, and federal funds sold. Cash and cash equivalents also include balances that Stifel Bank maintains at the Federal Reserve Bank.

Cash Segregated for Regulatory Purposes

Our broker-dealer subsidiaries are subject to Rule 15c3-3 under the Securities Exchange Act of 1934, which requires our company to maintain cash or qualified securities in a segregated reserve account for the exclusive benefit of its clients. In accordance with Rule 15c3-3, our company has portions of its cash segregated for the exclusive benefit of clients at December 31, 2009.

Brokerage Client Receivables and Allowance for Doubtful Accounts

Brokerage client receivables include receivables of our company's broker-dealer subsidiaries, which represent amounts due on cash and margin transactions and are generally collateralized by securities owned by clients. Brokerage client receivables, primarily consisting of floating-rate loans collateralized by customer-owned securities, are charged interest at rates similar to other such loans made throughout the industry. The receivables are reported at their outstanding principal balance net of allowance for doubtful accounts. When a broker-dealer receivable is considered to be impaired, the amount of the impairment is generally measured based on the fair value of the securities acting as collateral, which is measured based on current prices from independent sources such as listed market prices or broker-dealer price quotations. Securities owned by customers, including those that collateralize margin or other similar transactions, are not reflected in the consolidated statements of financial condition.

Securities Borrowed and Securities Loaned

Securities borrowed require our company to deliver cash to the lender in exchange for securities and are included in receivables from brokers, dealers, and clearing organizations. For securities loaned, we receive collateral in the form of cash in an amount equal to the market value of securities loaned. Securities loaned are included in payables to brokers, dealers, and clearing organizations. We monitor the market value of securities borrowed and loaned generally on a daily basis, with additional collateral obtained or refunded as necessary. Fees received or paid are recorded in interest revenue or interest expense.

Substantially all of these transactions are executed under master netting agreements, which gives us right of offset in the event of counterparty default; however, such receivables and payables with the same counterparty are not set-off in the consolidated statements of financial condition.

Securities Purchased Under Agreements to Resell

Securities purchased under agreements to resell ("resale agreements") are collateralized investing transactions that are recorded at their contractual amounts plus accrued interest. We obtain control of collateral with a market value equal to or in excess of the principal amount loaned and accrued interest under resale agreements. We value collateral on a daily basis, with additional collateral obtained when necessary to minimize the risk associated with this activity.

Financial Instruments

We measure certain financial assets and liabilities at fair value on a recurring basis, including cash equivalents, trading securities owned, available-for-sale securities, investments and trading securities sold, but not yet purchased. Other than those separately discussed in the notes to the consolidated financial statements, the remaining financial instruments are generally short-term in nature and their carrying values approximate fair value.

Fair Value Hierarchy

The fair value of a financial instrument is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e. "the exit price") in an orderly transaction between market participants at the measurement date. We have categorized our financial instruments measured at fair value into a three-level classification in accordance with ASC 820, "Fair Value Measurement and Disclosures," which established a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from independent sources. Unobservable inputs reflect our assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the transparency of inputs as follows:

Level I - Quoted prices (unadjusted) are available in active markets for identical assets or liabilities as of the measurement date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.

Level II - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the measurement date. The nature of these financial instruments include instruments for which quoted prices are available but traded less frequently, derivative instruments whose fair value have been derived using a model where inputs to the model are directly observable in the market, or can be derived principally from or corroborated by observable market data, and instruments that are fair valued using other financial instruments, the parameters of which can be directly observed.

Level III - Instruments that have little to no pricing observability as of the measurement date. These financial instruments do not have two-way markets and are measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation.

Valuation of Financial Instruments

When available, we use observable market prices, observable market parameters, or broker or dealer prices (bid and ask prices) to derive the fair value of financial instruments. In the case of financial instruments transacted on recognized exchanges, the observable market prices represent quotations for completed transactions from the exchange on which the financial instrument is principally traded.

A substantial percentage of the fair value of our trading securities and other investments owned, trading securities pledged as collateral, available-for-sale securities and trading securities sold, but not yet purchased, are based on

observable market prices, observable market parameters, or derived from broker or dealer prices. The availability of observable market prices and pricing parameters can vary from product to product. Where available, observable market prices and pricing or market parameters in a product may be used to derive a price without requiring significant judgment. In certain markets, observable market prices or market parameters are not available for all products, and fair value is determined using techniques appropriate for each particular product. These techniques involve some degree of judgment.

For investments in illiquid or privately held securities that do not have readily determinable fair values, the determination of fair value requires us to estimate the value of the securities using the best information available. Among the factors we consider in determining the fair value of investments are the cost of the investment, terms and liquidity, developments since the acquisition of the investment, the sales price of recently issued securities, the financial condition and operating results of the issuer, earnings trends and consistency of operating cash flows, the long-term business potential of the issuer, the quoted market price of securities with similar quality and yield that are publicly traded, and other factors generally pertinent to the valuation of investments. In instances where a security is subject to transfer restrictions, the value of the security is based primarily on the quoted price of a similar security without restriction but may be reduced by an amount estimated to reflect such restrictions. The fair value of these investments is subject to a high degree of volatility and may be susceptible to significant fluctuation in the near term and the differences could be material.

The degree of judgment used in measuring the fair value of financial instruments generally correlates to the level of pricing observability. Pricing observability is impacted by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established and the characteristics specific to the transaction. Financial instruments with readily available active quoted prices for which fair value can be measured from actively quoted prices generally will have a higher degree of pricing observability and a lesser degree of judgment used in measuring fair value. Conversely, financial instruments rarely traded or not quoted will generally have less, or no, pricing observability and a higher degree of judgment used in measuring fair value. See Note 5 for additional information on how we value our financial instruments.

Available-for-Sale Securities

Securities available for sale are recorded at fair value based on quoted prices for similar securities in active markets and other observable market data. Securities available for sale include U.S. agency notes, state and municipal securities, U.S. agency, non-agency and commercial mortgage-backed securities, corporate debt securities, and asset-backed securities. We evaluate these securities for other-than-temporary impairment on a quarterly basis. If we determine other-than-temporary impairment exists, the cost basis of the security is adjusted to the then-current fair value, with a corresponding loss recognized in current earnings. Factors we consider in determining whether an impairment is other-than-temporary are the length of time and extent of the impairment, the credit rating of the securities and the issuer, whether the issuer continues to make the contractual cash payments, whether we believe the issuer will be able to continue to make the contractual payments until the value recovers or the securities mature and our company's ability and intent to hold the investment until its value recovers or the securities mature. We may determine that the decline in fair value of an investment is other-than-temporary if our analysis of these factors indicates that we will not recover our investment in the securities.

Unrealized gains and losses are reported, net of taxes, in accumulated other comprehensive income/(loss) included in shareholders' equity. Amortization of premiums and accretion of discounts are recorded as interest income using the interest method. Realized gains and losses from sales of securities available for sale are determined on a specific identification basis and are included in other revenue on the consolidated statements of operations.

Held-to-Maturity Securities

Securities held to maturity are recorded at amortized cost based on our company's positive intent and ability to hold these securities to maturity. Securities held to maturity include asset-backed securities, consisting of collateralized debt obligation securities. We evaluate these securities for other-than-temporary impairment on a quarterly basis. If we determine other-than-temporary impairment exists, the cost basis of the security is adjusted to the then-current fair value, with a corresponding loss recognized in current earnings.

Loans Held for Sale

Loans held for sale consist of fixed-rate and adjustable-rate residential real estate mortgage loans intended for sale. Loans held for sale are stated at lower of cost or market value. Declines in market value below cost and any gains or losses on the sale of these assets are recognized in other revenues on the consolidated statements of operations. Market value is determined based on prevailing market prices for loans with similar characteristics or on sale contract prices. Deferred fees and costs related to these loans are not amortized but are recognized as part of the cost basis of the loan at the time it is sold.

Bank Loans

Bank loans consist of commercial and residential mortgage loans, home equity loans, stock secured loans, construction loans and non-real-estate commercial and consumer loans originated by Stifel Bank. Bank loans that management has the intent and ability to hold are recorded at outstanding principal adjusted for any charge-offs, allowance for loan losses, and deferred origination fees and costs. Loan origination costs, net of fees, are deferred and recognized over the contractual life of the loan as an adjustment of yield using the interest method. Bank loans are generally collateralized by real estate, real property, marketable securities, or other assets of the borrower. Interest income is recognized in the period using the effective interest rate method, which is based upon the respective interest rates and the average daily asset balance. Stifel Bank does not maintain any mortgage servicing rights on mortgages that are sold. Stifel Bank's loan portfolio does not have any investments in sub-prime mortgages.

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. In providing for the allowance for loan losses, management considers historical loss experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. Large groups of smaller balance homogenous loans are collectively evaluated for impairment.

In addition, impairment is measured on a loan-by-loan basis for commercial and construction loans and a specific allowance is established for individual loans determined to be impaired. Impairment is measured using the present value of the impaired loan's expected cash flow discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent.

A loan is considered impaired when, based on current information and events, it is probable that the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement will not be collectible. Factors considered in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. We determine the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed.

Once a loan is determined to be impaired, usually when principal or interest becomes 90 days past due or when collection becomes uncertain, the accrual of interest and amortization of deferred loan origination fees is discontinued ("non-accrual status"), and any accrued and unpaid interest income is written off. Loans placed on non-accrual status are returned to accrual status when all delinquent principal and interest payments are collected and the collectibility of future principal and interest payments is reasonably assured. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

Bank Foreclosed Assets Held for Sale

Assets acquired through, or in lieu of, loan foreclosure by Stifel Bank are held for sale and initially recorded at fair value, less estimated cost to sell, at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed and the assets are carried at the lower of carrying amount or fair value less cost to sell. These valuations are performed by a third-party appraisal firm. Revenue and expense from operations and changes in the valuation allowance are included in other income or other operating expense on the consolidated statements of operations.

Investments

Investments on the consolidated statements of financial condition contain investments in securities that are marketable and securities that are not readily marketable. These investments are not included in our broker-dealer trading inventory or available-for-sale or held-to-maturity portfolios and represent the acquiring and disposing of debt or equity instruments for our benefit.

Our broker-dealer subsidiaries report changes in fair value of marketable and non-marketable securities through current period earnings based on guidance provided by the AICPA Audit and Accounting Guide, "Brokers and Dealers in Securities." The fair value of marketable investments is generally based on either quoted market or dealer prices. The fair value of non-marketable securities is based on management's estimate using the best information available, which consists of quoted market prices for similar securities and internally developed discounted cash flow models.

Fixed Assets

Office equipment is depreciated on an accelerated basis over the estimated useful life of the asset of two to seven years. Leasehold improvements are amortized on a straight-line basis over the lesser of the estimated useful life of the asset or the term of the lease. Office equipment, leasehold improvements, and property are stated at cost net of accumulated depreciation and amortization. Office equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable.

Goodwill and Intangible Assets

Goodwill represents the cost of acquired businesses in excess of the fair value of the related net assets acquired. Goodwill is tested for impairment at least annually or whenever indications of impairment exist. In testing for the potential impairment of goodwill, we estimate the fair value of each of our company's reporting units (generally defined as the businesses for which financial information is available and reviewed regularly by management), and compare it to their carrying value. If the estimated fair value of a reporting unit is less than its carrying value, we are required to estimate the fair value of all assets and liabilities of the reporting unit, including goodwill. If the carrying value of the reporting unit's goodwill is greater than the estimated fair value, an impairment charge is recognized for the excess. We have elected July 31 as our annual impairment testing date.

Identifiable intangible assets, which are amortized over their estimated useful lives, are tested for potential impairment whenever events or changes in circumstances suggest that the carrying value of an asset or asset group may not be fully recoverable.

Loans and Advances

We offer transition pay, principally in the form of upfront loans, to financial advisors and certain key revenue producers as part of our company's overall growth strategy. These loans are generally forgiven by a charge to compensation and benefits over a five- to ten-year period if the individual satisfies certain conditions, usually based on continued employment and certain performance standards. We monitor and compare individual financial advisor production to each loan issued to ensure future recoverability. If the individual leaves before the term of the loan expires or fails to meet certain performance standards, the individual is required to repay the balance. In determining the allowance for doubtful receivables from former employees, management considers the facts and circumstances surrounding each receivable, including the amount of the unforgiven balance, the reasons for the terminated employment relationship, and the former employees' overall financial positions. The loan balance from former employees at December 31, 2009 and 2008 was \$2,492 and \$2,483, respectively, with associated loss allowances of \$1,500 and \$1,186, respectively.

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase ("repurchase agreements") are collateralized investing transactions that are recorded at their contractual amounts plus accrued interest. We make delivery of securities sold under agreements to repurchase and monitor the value of these securities on a daily basis. When necessary, we will deliver additional collateral.

Derivative Instruments and Hedging Activities

Stifel Bank recognizes all of its derivative instruments at fair value as either assets or liabilities on the consolidated statements of financial condition. These instruments are recorded in other assets or accounts payable and accrued expenses on the consolidated statements of financial condition and in the operating section of the consolidated statement of cash flows as increases or decreases of other assets and accounts payable and accrued expenses. Our company's policy is not to offset fair value amounts recognized for derivative instruments and fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral arising from derivative instruments recognized at fair value executed with the same counterparty under master netting arrangements. The accounting for changes in the fair value (i.e., gains and losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments under ASC 815, "Derivatives and Hedging," we must also designate the hedging instrument or transaction, based upon the exposure being hedged.

For derivative instruments that are designated and qualify as cash flow hedges (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income/(loss) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item, if any, is recognized in current earnings during the period of change. We do not use derivatives for trading or speculative purposes and, at December 31, 2009, do not have any derivatives that are not designated in qualifying cash flow hedging relationships. See Note 16 for additional detail.

Revenue Recognition

Customer security transactions are recorded on a settlement date basis, with related commission revenues and expenses recorded on a trade date basis. Commission revenues are recorded at the amount charged to the customer, which, in certain cases, may include varying discounts. Principal securities transactions are recorded on a trade date basis. We distribute our proprietary equity research products to our client base of institutional investors at no charge. These proprietary equity research products are accounted for as a cost of doing business.

Investment banking revenues include advisory fees, management fees, underwriting fees, net of reimbursable expenses, and sales credits earned in connection with the distribution of the underwritten securities. Investment banking management fees are recorded on the offering date, sales credits on the trade date, and underwriting fees at the time the underwriting is completed and the income is determinable. Revenues derived from contractual arrangements, typically advisory fees, are recorded when payments are earned and contractually due. Expenses associated with investment banking transactions are deferred until the related revenue is recognized or the engagement is otherwise concluded. For the periods presented, there were no significant expenses recognized for incomplete transactions. We have not recognized any incentive income that is subject to contingent repayments.

Asset management and service fees are recorded when earned based on the month-end assets in the accounts and consist of customer account service fees, per account fees (such as IRA fees), and wrap fees on managed accounts.

Leases

We lease office space and equipment under operating leases. We recognize rent expense related to these operating leases on a straight-line basis over the lease term. The lease term commences on the earlier of the date when we become legally obligated for the rent payments or the date on which we take possession of the property. For tenant improvement allowances and rent holidays, we record a deferred rent liability in "Accounts payable and accrued expenses" on the consolidated statements of financial condition and amortize the deferred rent over the lease term as a reduction to rent expense on the consolidated statements of operations.

Income Taxes

We compute income taxes using the asset and liability method, under which deferred income taxes are provided for the temporary differences between the financial statement carrying amounts and the tax basis of our company's assets and liabilities. We establish a valuation allowance for deferred tax assets if it is more likely than not that these items will either expire before we are able to realize their benefits, or that future deductibility is uncertain.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. We recognize interest and penalties related to uncertain tax positions in income tax expense. See Note 23 for further information regarding income taxes.

Recently Adopted Accounting Guidance

Financial Accounting Standards Board ("FASB") Accounting Standards Codification

In June 2009, the FASB issued the FASB Accounting Standards Codification (the "Codification"), which will serve as the single source of authoritative non-governmental generally accepted accounting principles, superseding existing FASB, American Institute of Certified Public Accountants, Emerging Issues Task Force and related accounting literature. This guidance is effective for interim and annual reporting periods ending after September 15, 2009 (September 30, 2009 for our company) and has impacted our financial statement disclosures since all future references to authoritative accounting literature will be referenced in accordance with the Codification.

Subsequent Events

In May 2009, the FASB issued new guidance on the treatment of subsequent events. Subsequent events are defined as events or transactions that occur after the balance sheet date, but before the financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet. Unrecognized subsequent events are events or transactions that provide evidence about conditions that did not exist at the date of the balance sheet, but arose before the financial statements were issued. Recognized subsequent events are recorded in the financial statements and unrecognized subsequent events are excluded from the financial statements but disclosed in the notes to the financial statements if their effect is material. This guidance is effective for interim and annual reporting periods ending after June 15, 2009 (June 30, 2009 for our company). See Note 29 for a discussion of our analysis of subsequent events under the new guidance.

Fair Value of Financial Instruments

In April 2009, the FASB issued new guidance that provides additional assistance in estimating fair value of financial instruments when the volume and level of activity for the asset or liability have significantly decreased, including how to identify circumstances that indicate a transaction is distressed. This guidance is effective for interim and annual reporting periods ending after June 15, 2009 (June 30, 2009 for our company). The adoption did not have an impact on our consolidated financial statements. See Note 6 for further discussion of fair value.

In September 2006, the FASB issued new guidance, which defined fair value, established guidelines for measuring fair value and expanded disclosures regarding fair value measurements. The FASB delayed the application of the guidance for nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until fiscal years beginning after November 15, 2008 (January 1, 2009 for our company). The adoption did not have an impact on our consolidated financial statements.

Consolidation

In June 2009, the FASB issued amended standards for determining whether to consolidate a variable interest entity. These new standards amend the evaluation criteria to identify the primary beneficiary of a variable interest entity and requires ongoing reassessment of whether an enterprise is the primary beneficiary of the variable interest entity. The provisions of the new standards are effective for annual reporting periods beginning after November 15, 2009 and interim periods within those fiscal years (January 1, 2010 for our company). We are currently evaluating the impact the new standards will have on our consolidated financial statements.

Other-Than-Temporary Impairments

In April 2009, the FASB issued new standards for the recognition and measurement of other-than-temporary impairments for debt securities, which replaced the pre-existing "intent and ability" indicator. These new standards specify that if the fair value of a debt security is less than its amortized cost basis, an other-than-temporary impairment is triggered in circumstances where (1) an entity has an intent to sell the security, (2) it is more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis, or (3) the entity does not expect to recover the entire amortized cost basis of the security (that is, a credit loss exists). Other-than-temporary impairments are separated into amounts representing credit losses, which are recognized in earnings and amounts related to all other factors, which are recognized in other comprehensive income (loss). We adopted these standards in the second quarter of 2009. See Note 8 for further information regarding our available-for-sale and held-to-maturity securities.

Derivatives

In September 2008, the FASB issued additional guidance, which requires additional disclosures by sellers of credit derivatives, including credit derivatives embedded in hybrid instruments. This new guidance also amends previous guidance related to accounting for guarantees to require additional disclosure about the current status of the payment/performance risk of a guarantee. These new provisions are effective for reporting periods ending after November 15, 2008 (January 1, 2009 for our company). These provisions further clarify the effective date of new disclosure requirements regarding derivative instruments and hedging activities. Since the new guidance only required additional disclosures, the adoption did not impact our consolidated financial statements.

In March 2008, the FASB issued new standards that require companies with derivative instruments to disclose information that should enable financial statement users to understand how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for and how derivative instruments and related hedged items affect a company's financial position, financial performance and cash flows. We adopted these new standards in the first quarter of 2009. See Note 16 for further information regarding derivative instruments and related hedged items.

Business Combinations

In April 2009, the FASB issued new standards that provided guidance on the initial recognition and measurement, subsequent measurement and accounting and disclosure of assets and liabilities arising from contingencies in business combinations. This new guidance is effective for assets or liabilities arising from contingencies in business combinations occurring after January 1, 2009. See Note 3 for further information regarding our acquisitions.

In April 2008, the FASB issued new standards that provided guidance on how to determine the useful life of intangible assets by amending the factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets. This new guidance applies prospectively to intangible assets that are acquired individually or with a group of other assets in business combinations and asset acquisitions. These standards are effective for financial statements issued for fiscal years beginning after December

15, 2008 (January 1, 2009 for our company) and interim periods within those fiscal years. The adoption did not have an impact on our consolidated financial statements.

In December 2007, the FASB revised their guidance for business combinations and non-controlling interests. The new standards will change how business acquisitions are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. The changes also impact the accounting and reporting for minority interests, which will be recharacterized as non-controlling interests and classified as a component of equity. We adopted these standards in the first quarter of 2009. See Note 3 for further information regarding our acquisitions.

Recently Issued Accounting Guidance

Fair Value of Financial Instruments

In January 2010, the FASB revised their guidance for disclosures about fair value measurements, which will require a greater level of clarity and additional disclosures about valuation techniques and inputs into fair value measurements. These new standards are effective for interim and annual periods ending after December 15, 2009 (January 1, 2010 for our company), except for certain disclosures included in the rollforward of activity in Level III fair value measurements, which are effective for annual periods beginning after December 15, 2010, and interim periods within those years. Since the new guidance will only require additional disclosures, we do not expect the adoption to have an impact on our consolidated financial statements.

NOTE 3 - Acquisitions

UBS Wealth Management Americas Branch Network

On March 23, 2009, we announced that Stifel Nicolaus had entered into a definitive agreement with UBS Financial Services Inc. ("UBS") to acquire certain specified branches from the UBS Wealth Management Americas branch network. As subsequently amended, we agreed to acquire 56 branches (the "Acquired Locations") from UBS in four separate closings pursuant to this agreement. We completed the closings on the following dates: August 14, 2009, September 11, 2009, September 25, 2009 and October 16, 2009. This acquisition further expands our private client footprint. Pro forma information is not presented because the acquisition is not considered to be material, as defined by the Securities and Exchange Commission (the "SEC"). The results of operations of the Acquired Locations have been included in our results prospectively from the respective acquisition dates.

The transaction was structured as an asset purchase for cash at a premium over certain balance sheet items, subject to adjustment. The payments to UBS in conjunction with all four closings of \$252,153 were funded by available liquidity and included: (i) an upfront cash payment of \$28,817 based on the actual number of branches and financial advisors acquired by Stifel Nicolaus; and (ii) aggregate payment of \$15,901 for net fixed assets, employee forgivable loans and other assets, and (iii) securities-based and margin loans of \$207,435 that were collateralized by securities included in customer accounts converted to the Stifel platform. In addition, a contingent earn-out payment is payable based on the performance of those UBS financial advisors who joined Stifel Nicolaus, over the two-year period following the closing. We have recognized a liability of \$8,300 for estimated earn-out payments over the two-year period. The liability is included in "Accounts payable and accrued expenses" on the consolidated statements of financial condition at December 31, 2009.

As a result of all four closings, we converted approximately \$16.0 billion in customer assets, which included \$1.8 billion in money market accounts and Federal Deposit Insurance Corporation ("FDIC")-insured balances to the Stifel Nicolaus platform.

This acquisition is being accounted for under the acquisition method of accounting in accordance with ASC 805, "Business Combinations." Accordingly, the purchase price was allocated to the acquired assets and liabilities based on their estimated fair values as of the respective acquisition dates. Goodwill of \$33,377 is calculated as the purchase premium after adjusting for the fair value of the net assets acquired and represents the value expected from the synergies created through the operational enhancement benefits that will result from the integration of the hired

financial advisors and the conversion of the customer accounts to the Stifel platform. During the fourth quarter of 2009, we continued the analysis of the fair values of the contingent earn-out liability, net assets of the Acquired Locations and purchase price allocation of the net assets of the Acquired Locations. We recorded an increase to goodwill of \$4,836 as a result. The change was predominantly related to recording an intangible asset for customer relationships as a result of the purchase price allocation. The goodwill has been allocated to our Global Wealth Management segment. Goodwill is expected to be deductible for federal income tax purposes.

Butler, Wick & Co., Inc.

On December 31, 2008, we closed on the acquisition of Butler, Wick & Co., Inc. ("Butler Wick"), a privately-held broker-dealer that provides financial advice to individuals, municipalities, and corporate clients. We acquired 100% of the voting interests of Butler Wick from United Community Financial Corp. This acquisition extends our company's geographic reach in the Ohio Valley region. The purchase price of \$12,000 was funded from cash generated from operations. Under the purchase method of accounting, the assets and liabilities of Butler Wick are recorded as of the acquisition date, at their respective fair values and consolidated in our company's financial statements. Revisions to the allocation will be reported as changes to various assets and liabilities, including goodwill and other intangible assets. Pro forma information is not presented because the acquisition is not considered to be material. Butler Wick's results of operations have been included in our results prospectively from January 1, 2009.

Ryan Beck & Company, Inc. Earn-Out

On February 28, 2007, we completed the acquisition of Ryan Beck & Company, Inc. ("Ryan Beck"), a full-service brokerage and investment banking firm and wholly-owned subsidiary of BankAtlantic Bancorp, Inc. Pursuant to the stock purchase agreement, an additional earn-out payment was payable based on the achievement of defined revenues over the two year period following the closing. We paid the final earn-out payment of \$9,301 related to the two-year private client contingent earn-out in 271,353 shares of our company's common stock at an average price of \$34.30 per share in the first quarter of 2009, with partial shares paid in cash.

NOTE 4 - Assets and Liabilities Held for Sale

On December 30, 2009, Stifel Bank entered into a Branch Purchase and Assumption Agreement providing for the sale of a branch office to Anheuser-Busch Employees' Credit Union. Under the terms of the agreement, Anheuser-Busch Employees' Credit Union is to assume \$20,773 of deposits, and will purchase \$33,129 of loans as well as certain other assets, including the building and office equipment of \$661. The transaction, which is subject to regulatory approvals and certain closing conditions, is expected to be completed during the first quarter of 2010.

The assets and liabilities associated with the branch office are reflected in "Loans held for sale", "Other assets" and "Deposits" on the consolidated statements of financial condition as of December 31, 2009, respectively, at the lower of their carrying value or fair value less costs to sell. The branch sale has not been classified as discontinued operations as Stifel Bank will have on-going banking operations in this market.

NOTE 5 - Receivables from and Payables to Brokers, Dealers and Clearing Organizations

Amounts receivable from brokers, dealers and clearing organizations at December 31, 2009 and 2008, included (*in thousands*):

**December 31,
2009**

December 31,
2008

Deposits paid for securities borrowed

\$

147,325

\$

49,784

Receivable from clearing organizations

97,658

57,954

Securities failed to deliver

536

64,626

3,837

\$

309,609

\$

111,575

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Amounts payable to brokers, dealers and clearing organizations at December 31, 2009 and 2008, included (*in thousands*):

	December 31, 2009	December 31, 2008
Securities failed to receive		
\$		73,793
\$		8,811
Deposits received from securities loaned		

16,667

16,987

Payable to clearing organizations

-

3,893

\$

90,460

\$

29,691

Deposits paid for securities borrowed approximate the market value of the securities. Securities failed to deliver and receive represent the contract value of securities that have not been delivered or received on settlement date.

NOTE 6 - Fair Value of Financial Instruments

We measure certain financial assets and liabilities at fair value on a recurring basis, including cash equivalents, trading securities owned, available-for-sale securities, investments and trading securities sold, but not yet purchased.

The degree of judgment used in measuring the fair value of financial instruments generally correlates to the level of pricing observability. Pricing observability is impacted by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established and the characteristics specific to the transaction. Financial instruments with readily available active quoted prices for which fair value can be measured from actively quoted prices generally will have a higher degree of pricing observability and a lesser degree of judgment used in measuring fair value. Conversely, financial instruments rarely traded or not quoted will generally have less, or no, pricing observability and a higher degree of judgment used in measuring fair value.

The following is a description of the valuation techniques used to measure fair value.

Cash equivalents

Cash equivalents include highly liquid investments with original maturities of three months or less. Actively traded money market funds are measured at their net asset value, which approximates fair value, and classified as Level I.

Financial instruments (Trading securities and available-for-sale securities)

When available, the fair value of financial instruments are based on quoted prices in active markets and reported in Level I. Level I financial instruments include highly liquid instruments with quoted prices such as equities listed in active markets, corporate obligations and certain U.S. Treasury bonds and other government obligations.

If quoted prices are not available, fair values are obtained from pricing services, broker quotes, or other model-based valuation techniques with observable inputs such as the present value of estimated cash flows and reported as Level II. The nature of these financial instruments include instruments for which quoted prices are available but traded less frequently, instruments whose fair value have been derived using a model where inputs to the model are directly observable in the market, or can be derived principally from or corroborated by observable market data, and instruments that are fair valued using other financial instruments, the parameters of which can be directly observed. Level II financial instruments generally include certain equity securities not actively traded, corporate obligations infrequently traded, certain government and municipal obligations, certain bank notes, and certain mortgage-backed and asset-backed securities.

Level III financial instruments have little to no pricing observability as of the report date. These financial instruments do not have active two-way markets and are measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation. We have identified Level III financial instruments to include certain asset-backed securities, consisting of collateral loan obligation securities that have experienced low volumes of executed transactions; equity securities with unobservable inputs, certain corporate obligations with unobservable pricing inputs, certain airplane trust certificates, limited partnerships, and other investments. Our Level III asset-backed securities are valued using cash flow models that utilize unobservable inputs. Level III corporate bonds are valued using prices from comparable securities.

Investments

Investments in public companies are valued based on quoted prices in active markets and reported in Level I. Investments in certain equity securities with unobservable inputs and auction-rate securities for which the market has been dislocated and largely ceased to function are reported as Level III assets. Investments in certain equity securities with unobservable inputs are valued using management's best estimate of fair value, where the inputs require significant management judgment. Auction-rate securities are valued based upon our expectations of issuer redemptions and using internal discounted cash flow models.

Derivatives

Derivatives are valued using quoted market prices when available or pricing models based on the net present value of estimated future cash flows. The valuation models used require market observable inputs including contractual terms, market prices, yield curves, credit curves and measures of volatility. These measurements are classified as Level II within the fair value hierarchy and are used to value interest rate swaps.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

The following table summarizes the valuation of our financial instruments by pricing observability levels as of December 31, 2009 (*in thousands*):

December 31, 2009

Total

Level I

Level II

Level III

Assets:

Cash equivalents

\$

3,824

\$

3,824

\$

-

\$

-

Trading securities owned:

U.S. government agency securities

158,724

-

158,724

-

U.S. government securities

20,254

20,254

544

-

-

Corporate securities:

Fixed income securities

209,950

36,541

545

	172,166
	1,243
Equity securities	
	18,505
	18,505
	-
	-
State and municipal securities	
	47,458
	-
	546

47,458

-

Total trading securities owned

454,891

75,300

378,348

1,243

Available-for-sale securities:

U.S. government agency securities

1,011

-

1,011

-

State and municipal securities

992

548

-

992

-

Mortgage-backed securities:

Agency

433,019

549

	-
	433,019
	-
Non-agency	
	38,466
	-
	38,466
	-
Commercial	
	47,640
	550

	-
	47,640
	-
Corporate fixed income securities	
	42,890
	32,204
	10,686
	-
Asset-backed securities	
	551

14,470

-

11,777

2,693

Total available-for-sale securities

578,488

32,204

543,591

2,693

Investments:

552

Corporate equity securities

2,671

2,671

-

-

Mutual funds

553

28,597

28,597

-

-

U.S. government securities

7,266

7,266

-

-

554

Auction rate securities:

Equity securities

46,297

-

-

46,297

555

Municipal securities

9,706

-

-

9,706

Other

6,536

672

438

556

5,426

Total investments

101,073

39,206

438

61,429

\$

1,138,276

\$

150,534

\$

922,377

557

\$

65,365

Liabilities:

Trading securities sold, but not yet purchased:

U.S. government securities

\$

127,953

\$

127,953

\$

559

\$

U.S. government agency securities

-
-
1,537

-
1,537

Corporate securities:

Fixed income securities

122,491

11,744

110,747

-

Equity securities

25,057

25,057

561

	-
	-
State and municipal securities	
	332
	-
	332
	-
Total trading securities sold, but not yet purchased	
	277,370
	562

164,754

112,616

-

Derivative contracts

78

-

78

-

\$

277,448

563

\$

164,754

\$

112,694

\$

-

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

The following table summarizes the valuation of our financial instruments by pricing observability levels as of December 31, 2008 (*in thousands*):

December 31, 2008

Total

Level I

Level II

Level III

Assets:

Cash equivalents

\$

172,589

\$

172,589

\$

-

\$

-

Trading securities owned:

U.S. government agency securities

26,525

-

26,525

-

U.S. government securities

13,876

13,876

567

-

-

Corporate securities:

Fixed income securities

43,131

11,820

568

	27,150
	4,161
Equity securities	
	14,094
	14,094
	-
	-
State and municipal securities	
	24,950
	4,397
	569

20,553

-

Total trading securities owned

122,576

44,187

74,228

4,161

Available-for-sale securities:

U.S. government agency securities

8,591

-

8,591

-

State and municipal securities

1,531

571

-

1,531

-

Mortgage-backed securities:

Agency

12,430

572

	-
	12,430
	-
Non-agency	
	17,422
	-
	17,422
	-
Asset-backed securities	

10,423

-

-

10,423

Total available-for-sale securities

50,397

-

39,974

10,423

Investments:

574

Corporate equity securities

2,668

2,668

-

-

575

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Mutual funds

23,082

23,082

-

-

U.S. government securities

7,132

9

7,123

-

576

Auction rate securities:

Equity securities

11,470

-

-

577

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

	11,470
Municipal securities	
	7,039
	-
	-
	7,039
Other	
	5,678
	90
	419
	578

	5,169
Total investments	
	57,069
	25,849
	7,542
	23,678
\$	402,631
\$	242,625
\$	579

121,744

\$

38,262

Liabilities:

Trading securities sold, but not yet purchased:

U.S. government securities

\$

33,279

\$

33,279

581

\$

-

\$

-

Corporate securities:

Equity securities

3,489

582

3,489

-

-

Fixed income securities

62,012

24,081

37,931

-

State and municipal securities

154

583

	-
	154
	-
\$	98,934
\$	60,849
\$	38,085
\$	-

Our company's investment in a U.S. government security used to fund our venture capital activities in qualified Missouri businesses is classified as held-to-maturity and is not subject to fair value accounting; therefore, it is not included in the above analysis of fair value at December 31, 2009 and 2008. This investment is included in "Investments" on the consolidated statements of financial condition at December 31, 2009 and 2008.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

The following table summarizes the changes in fair value carrying values associated with Level III financial instruments during the year ended December 31, 2009 (*in thousands*):

Balance at December 31, 2008

Purchases/ (sales), net

Net transfers in/(out)

Realized gains/ (losses)(1)

Unrealized gains/ (losses)(1)(2)

**Balance at December 31,
2009**

Assets:

Trading securities owned:

Corporate fixed income securities

\$

4,161

\$

(4,020)

)

\$

587

236

\$

1,448

\$

(582

)

\$

1,243

Available-for-sale securities:

Asset-backed securities

10,423

(4,450

)

-

-

(3,280

)

2,693

Investments:

Auction rate securities:

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Equity securities

11,470

36,690

-

-

(1,863

)

46,297

Municipal securities

7,039

591

	2,725
	-
	-
	(58
)	
	9,706
Other	
	5,169
	350
	(503
)	
	592

	-
	410
	5,426
Total investments	23,678
	39,765
)	(503
	-
)	(1,511
	61,429
	593

\$		38,262
\$		31,295
\$		(267)
)		
\$		1,448
\$		(5,373)
)		
\$		65,365

(1) Realized and unrealized gains/(losses) related to trading securities and investments are reported in other income on the consolidated statements of operations.

(2) Unrealized gains/(losses) related to available-for-sale securities are reported in other comprehensive income/(loss).

The results included in the table above are only a component of the overall trading strategies of our company. The table above does not present Level I or Level II valued assets or liabilities. We did not have any Level III liabilities at December 31, 2009 and 2008. The changes to our company's Level III classified instruments were principally a result of: purchases of auction rate securities ("ARS") from our customers, principal pay-downs of our available-for-sale securities, unrealized gains and losses, and redemptions of ARS at par during the year ended December 31, 2009. There were no changes in unrealized gains/(losses) recorded in earnings for the year ended December 31, 2009 relating to Level III assets still held at December 31, 2009.

Fair Value of Financial Instruments

The following reflects the fair value of financial instruments whether or not recognized on the consolidated statements of financial condition at fair value (*in thousands*).

December 31, 2009

December 31, 2008

Carrying Amount

Estimated Fair Value

Carrying Amount

Estimated Fair Value

Financial assets

Cash and cash equivalents *

\$

161,820

\$

161,820

\$

239,725

\$

239,725

Cash segregated for regulatory purposes *

19

19

40

40

Securities purchased under agreements to resell *

124,854

124,854

17,723

17,723

Trading securities owned

454,891

598

	454,891
	122,576
	122,576
Available-for-sale securities	
	578,488
	578,488
	50,397
	50,397
Held-to-maturity securities	
	7,574
	599

	4,276
	7,574
	6,250
Loans held for sale *	
	91,117
	91,117
	31,246
	31,246
Bank loans	
	335,157
	332,437
	600

181,269

181,269

Investments

109,403

109,403

75,465

75,465

Financial liabilities

Non-interest bearing deposits

\$

19,521

\$

19,013

\$

23,162

\$

23,162

Interest-bearing deposits

1,027,690

1,027,403

261,636

261,636

Securities sold under agreements to repurchase *

122,533

122,533

2,216

2,216

Federal Home Loan Bank advances *

2,000

603

	2,000
	6,000
	6,000
Trading securities sold but not yet purchased	
	277,370
	277,370
	98,934
	98,934
Derivatives	
	78
	604

78

-

-

Liabilities subordinated to the claims of general creditors

10,081

9,299

4,362

7,552

605

* The carrying amount approximates fair value.

The following describes the valuation techniques used in estimating the fair value of our financial instruments as of December 31, 2009 and 2008.

Financial Assets

Securities purchased under agreements to resell

Securities purchased under agreements to resell are collateralized investing transactions that are recorded at their contractual amounts plus accrued interest. The carrying values at December 31, 2009 and 2008 approximate fair value.

Trading securities owned

Trading securities owned are recorded at fair value based on quoted prices in active markets and other observable market data. Trading securities owned include highly liquid instruments with quoted prices such as certain U.S. Treasury bonds, corporate bonds, certain municipal securities and equities listed in active markets.

If quoted prices are not available, fair values are obtained from pricing services, broker quotes, or other model-based valuation techniques with observable inputs such as the present value of estimated cash flows. The nature of these financial instruments include instruments for which quoted prices are available but traded less frequently, instruments whose fair value have been derived using a model where inputs to the model are directly observable in the market, or can be derived principally from or corroborated by observable market data, and instruments that are fair valued using other financial instruments, the parameters of which can be directly observed.

Certain corporate bonds are classified as Level III, which indicates there is less frequent or nominal market activity or the lack of multiple broker quotes. The corporate bonds classified as Level III are valued using prices from comparable securities.

Securities available for sale

Securities available for sale are recorded at fair value based on quoted prices for similar securities in active markets and other observable market data. Securities available for sale include U.S. agency notes, state and municipal securities, U.S. agency, non-agency and commercial mortgage-backed securities, corporate debt securities, and asset-backed securities.

Certain securities available for sale are classified as Level III, the majority of which are asset-backed securities, consisting of collateral loan obligation securities that have experienced low volumes of executed transactions. Classification of Level III indicates that significant valuation assumptions are not consistently observable in the market. When significant assumptions are not consistently observable, fair values are derived using the best available data. Such data may include quotes provided by a dealer, the use of external pricing services, independent pricing models, or other model-based valuation techniques such as calculation of the present values of future cash flows.

Held-to-maturity securities

Securities held to maturity are recorded at amortized cost based on our company's positive intent and ability to hold these securities to maturity. Securities held to maturity include asset-backed securities, consisting of collateralized debt obligation securities. The fair value was determined using several factors; however, primary weight was given to discounted cash flow modeling techniques that incorporated an estimated discount rate based upon recent observable debt security issuances with similar characteristics.

The decrease in fair value below the carrying amount at December 31, 2009 and 2008 is primarily due to unrealized losses that were caused primarily by: widening of credit spreads; illiquid markets for collateralized debt obligations; global disruptions in the credit markets; increased supply of collateralized debt obligation secondary market securities from distressed sellers; and difficult times in the banking sector, which has lead to a significant amount of bank failures.

Loans held for sale

Loans held for sale consist of fixed-rate and adjustable-rate residential real estate mortgage loans intended for sale. Loans held for sale are stated at lower of cost or market value. Fair value is determined based on prevailing market prices for loans with similar characteristics or on sale contract prices. The carrying value as of December 31, 2009 and 2008 approximates fair value.

Bank Loans

The fair values of mortgage loans and commercial loans were estimated using a discounted cash flow method, a form of the income approach. Discount rates were determined considering rates at which similar portfolios of loans would be made under current conditions and considering liquidity spreads applicable to each loan portfolio based on the

secondary market. The carrying value at December 31, 2008 approximated fair value.

Investments

Investments in public companies are valued based on quoted prices in active markets and reported. Investments in certain equity securities with unobservable inputs and auction-rate securities for which the market has been dislocated and largely ceased to function are reported as Level III assets. Investments in certain equity securities with unobservable inputs are valued using management's best estimate of fair value, where the inputs require significant management judgment. Auction-rate securities are valued based upon our expectations of issuer redemptions and using internal models.

Financial liabilities

Non-interest bearing deposits

The fair value of non interest-bearing deposits was estimated using a discounted cash flow method.

Interest bearing deposits

The fair values of money market and savings accounts were the amounts payable on demand at December 31, 2009 and 2008, and therefore carrying value approximates fair value. The fair value of other interest-bearing deposits, including certificates of deposit, was calculated by discounting the future cash flows using discount rates based on the expected current market rates for similar products with similar remaining terms.

Securities sold under agreements to repurchase

Securities sold under agreements to repurchase are collateralized investing transactions that are recorded at their contractual amounts plus accrued interest. The carrying values at December 31, 2009 and 2008 approximate fair value.

Trading securities sold but not yet purchased

Trading securities sold but not purchased are recorded at fair value based on quoted prices in active markets and other observable market data. Trading securities owned include highly liquid instruments with quoted prices such as certain U.S. Treasury bonds, corporate bonds, certain municipal securities and equities listed in active markets.

If quoted prices are not available, fair values are obtained from pricing services, broker quotes, or other model-based valuation techniques with observable inputs such as the present value of estimated cash flows. The nature of these financial instruments include instruments for which quoted prices are available but traded less frequently, instruments whose fair value have been derived using a model where inputs to the model are directly observable in the market, or can be derived principally from or corroborated by observable market data, and instruments that are fair valued using other financial instruments, the parameters of which can be directly observed.

Derivative Liabilities

Most of our derivatives are not exchange traded but instead traded in over the counter markets where quoted market prices are not readily available. The fair value of those derivatives is derived using models that use primarily market observable inputs, such as interest rate yield curves, credit curves, option volatility and currency rates. These derivatives are included in "Accounts payable and accrued expenses" on the consolidated statements of financial condition.

Liabilities subordinated to claims of general creditors

The fair value of subordinated debt was measured using the interest rates commensurate with borrowings of similar terms.

These fair value disclosures represent our best estimates based on relevant market information and information about the financial instruments. Fair value estimates are based on judgments regarding future expected losses, current economic conditions, risk characteristics of the various instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in the above methodologies and assumptions could significantly affect the estimates.

NOTE 7 - Trading Securities Owned and Trading Securities Sold, But Not Yet Purchased

The components of trading securities owned and trading securities sold, but not yet purchased at December 31, 2009 and 2008, are as follows (in thousands):

**December 31,
2009**

December 31, 2008

Trading securities owned:

U.S. government agency securities

\$

158,724

\$

26,525

U.S. government securities

20,254

13,876

Corporate securities:

Fixed income securities

	209,950
	43,131
Equity securities	
	18,505
	14,094
State and municipal securities	
	47,458
	24,950
\$	454,891
	613

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

\$

122,576

Trading securities sold, but not yet purchased:

U.S. government securities

\$

127,953

\$

-

U.S. government agency securities

1,537

33,279

614

Corporate securities:

Fixed income securities

122,491

3,489

Equity securities

25,057

62,012

State and municipal securities

615

332

154

\$

277,370

\$

98,934

At December 31, 2009 and 2008, trading securities owned in the amount of \$366,788 and \$123,415, respectively, were pledged as collateral for our repurchase agreements and short-term borrowings from banks.

Trading securities sold, but not yet purchased represent obligations of our company to deliver the specified security at the contracted price, thereby creating a liability to purchase the security in the market at prevailing prices. We are obligated to acquire the securities sold short at prevailing market prices, which may exceed the amount reflected on the consolidated statements of financial condition.

NOTE 8 - Available-for-Sale and Held-to-Maturity Securities

The following tables provide a summary of the amortized cost and fair values of the available-for-sale securities and held-to-maturity securities at December 31, 2009 and 2008 (in thousands):

December 31, 2009

**Amortized
cost**

**Gross unrealized
gains (1)**

Gross unrealized losses (1)

**Estimated
fair value**

Available-for-sale

U.S. government securities

\$

998

\$

13

\$

-

\$

1,011

State and municipal securities

960

32

619

-

992

Mortgage-backed securities:

Agency

432,820

1,880

620

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

	(1,681
)	
	433,019
Non-agency	
	39,905
	683
	(2,122
)	
	38,466
Commercial	
	47,274
	683
	621

	(317
)	
	47,640
Corporate fixed income securities	
	40,788
	2,102
	-
	42,890
Asset-backed securities	
	13,235
	622

1,235

-

14,470

\$

575,980

\$

6,628

\$

(4,120

)

\$

578,488

Held-to-maturity

Asset-backed securities

\$

7,574

-

(3,298

)

\$

4,276

(1) Unrealized gains/(losses) related to available-for-sale securities are reported in other comprehensive income/(loss).

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

December 31, 2008

Amortized
cost

Gross unrealized
gains (1)

Gross unrealized losses (1)

Estimated
fair value

Available-for-sale

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

U.S. government securities

\$

8,447

\$

144

\$

-

\$

8,591

State and municipal securities

1,513

19

(1

)

1,531

627

Mortgage-backed securities:

Agency

12,821

-

(391

)

628

12,430

Non-agency

23,091

-

(5,669

)

17,422

Asset-backed securities

11,400

-

(977

)

629

10,423

\$

57,272

\$

163

\$

(7,038

)

\$

50,397

Held-to-maturity

Asset-backed securities (2)

\$

7,574

-

(1,324

)

\$

6,250

(1) Unrealized gains/(losses) related to available-for-sale securities are reported in other comprehensive income/(loss).

(2) Held-to-maturity securities are carried on the consolidated statements of financial condition at amortized cost and the changes in the value of these securities, other than impairment charges, are not reported on the financial statements.

During the year ended December 31, 2009, available-for-sale securities with an aggregate par value of \$7,500 were called by the issuing agencies or matured resulting in no gains or losses recorded on the consolidated statements of operations. Additionally, during the year ended December 31, 2009, Stifel Bank received principal payments on asset-backed and mortgage-backed securities of \$40,474. During the year ended December 31, 2009, unrealized gains, net of deferred taxes, of \$6,244 were recorded in accumulated other comprehensive income/(loss). During the year ended December 31, 2008, unrealized losses, net of deferred tax benefits, of \$5,635 were recorded in accumulated other comprehensive income/(loss).

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

On June 30, 2008, we transferred a \$10,000 par value asset backed security, consisting of investment-grade trust preferred securities related primarily to banks, with an amortized cost basis of \$10,069 from our available-for-sale securities portfolio to our held-to-maturity portfolio. This security was transferred at the estimated fair value of \$7,574. The gross unrealized loss of \$2,495 included in accumulated other comprehensive income is being amortized as an adjustment of yield over the remaining life of the security. The estimated fair value of the held-to-maturity security at December 31, 2009 was \$4,276. The estimated fair value was determined using several factors; however, primary weight was given to discounted cash flow modeling techniques that incorporated an estimated discount rate based upon recent observable debt security issuances with similar characteristics.

Our investment in a held-to-maturity asset-backed security consists of pools of trust preferred securities related to banks. Unrealized losses were caused primarily by: 1) widening of credit spreads; 2) illiquid markets for collateralized debt obligations; 3) global disruptions in the credit markets; 4) increased supply of collateralized debt obligation secondary market securities from distressed sellers; and 5) difficult times in the banking sector, which has lead to a significant amount of bank failures.

**December 31,
2009**

Held-to-maturity:

Original Amortized cost (1)

\$

10,069

Impairment losses

(1,881

)

Amortized cost

8,188

Non-credit related impairment losses on securities not expected to be sold

(614

)

Carrying value (2)

\$

7,574

(1) For securities transferred to held-to-maturity from available-for-sale, original amortized cost is defined as the original purchase cost, plus or minus any accretion or amortization of interest, less any impairment previously recognized in earnings.

(2) Held-to-maturity securities are carried on the consolidated statements of financial condition at amortized cost and the changes in the value of these securities, other than impairment charges, are not reported on the financial statements.

The table below summarizes the amortized cost and fair values of debt securities, by contractual maturity (*in thousands*). Expected maturities may differ significantly from contractual maturities, as issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

December 31, 2009

Available-for-sale

Held-to-maturity

**Amortized
cost**

**Estimated
fair value**

**Amortized
cost**

**Estimated
fair value**

Debt securities

Within one year

\$

7,818

\$

7,973

\$

-

\$

-

After one year through three years

29,176

30,649

-

-

After three years through five years

9,021

10,122

-

-

After five years through ten years

9,966

637

10,619

-

-

After ten years

-

-

7,574

4,276

Mortgage-backed securities

After three years through five years

10,033

9,866

-

-

After five years through ten years

24,948

24,783

-

-

After ten years

640

485,018

484,476

-

-

\$

575,980

\$

578,488

\$

7,574

\$

4,276

641

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

The carrying value of securities pledged as collateral to secure public deposits and other purposes was \$76,502 and \$39,570 at December 31, 2009 and 2008, respectively.

Certain investments in the available-for-sale portfolio at December 31, 2009 are reported on the consolidated statements of financial condition at an amount less than their amortized cost. The total fair value of these investments at December 31, 2009 was \$223,972, which was 38.7% of our company's available-for-sale investment portfolio. The amortized cost basis of these investments was \$228,093 at December 31, 2009. The declines in the available-for-sale portfolio primarily resulted from changes in interest rates, the widening of credit spreads and liquidity issues that have had a pervasive impact on the market.

The following table is a summary of the amount of gross unrealized losses and the estimated fair value by length of time that the securities have been in an unrealized loss position at December 31, 2009 (*in thousands*):

December 31, 2009

Less than 12 months

12 months or more

Total

Gross unrealized losses

Estimated fair value

Gross unrealized losses

Estimated fair value

Gross unrealized losses

Estimated fair value

Available-for-sale

Mortgage-backed securities:

Agency

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

\$		
)		(1,512
\$		174,504
\$		(170
)		
\$		10,494
\$		(1,682
)		
\$		184,998
Non-agency		
)		(341
		9,832
		646

)	(1,780)
)	9,440
)	(2,121)
)	19,272
Commercial	
)	(167)
)	9,866
)	(150)
)	9,836
)	647

(317

)

19,702

\$

(2,020

)

\$

194,202

\$

(2,100

)

\$

29,770

\$

(4,120

)

\$

223,972

Our company's available-for-sale securities are reviewed quarterly in accordance with its accounting policy for other-than-temporary impairment. Since the decline in fair value of the securities presented in the table above is not attributable to credit quality but to changes in interest rates, the widening of credit spreads, and the liquidity issues that have had a pervasive impact on the market and because we have the ability and intent to hold these investments until a fair value recovery or maturity, we do not consider these securities to be other-than-temporarily impaired as of December 31, 2009.

Other-Than-Temporary Impairment

We evaluate our investment securities portfolio on a quarterly basis for other-than-temporary impairment ("OTTI"). We assesses whether OTTI has occurred when the fair value of a debt security is less than the amortized cost basis at the balance sheet date. Under these circumstances, OTTI is considered to have occurred (1) if we intend to sell the security; (2) if it is more likely than not we will be required to sell the security before recovery of its amortized cost basis; or (3) the present value of the expected cash flows is not sufficient to recover the entire amortized cost basis. For securities that we do not expect to sell or it is not more likely than not to be required to sell, credit-related OTTI, represented by the expected loss in principal, is recognized in earnings, while noncredit-related OTTI is recognized in other comprehensive income/(loss). For securities which we expect to sell, all OTTI is recognized in earnings.

Noncredit-related OTTI results from other factors, including increased liquidity spreads and extension of the security. Presentation of OTTI is made in the income statement on a gross basis with a reduction for the amount of OTTI recognized in OCI. We applied the related OTTI guidance on the debt security types listed below.

Pooled-trust-preferred securities represent collateralized debt obligations (CDOs) backed by a pool of debt securities issued by financial institutions. The collateral generally consisted of trust-preferred securities and subordinated debt securities issued by banks, bank holding companies, and insurance companies. A full cash flow analysis was used to estimate fair values and assess impairment for each security within this portfolio. We engaged a third party specialist with direct industry experience in pooled trust preferred securities valuations to provide assistance in estimating the fair value and expected cash flows for each security in this portfolio. Relying on cash flows was necessary because there was a lack of observable transactions in the market and many of the original sponsors or dealers for these securities were no longer able to provide a fair value that was compliant with ASC 820, "Fair Value Measurements and Disclosures."

Based on the evaluation, we recognized other-than-temporary impairment of \$1,881 related to credit through earnings for the year ended December 31, 2009. For the impaired security, unrealized losses not related to credit and therefore recognized in other comprehensive income was \$1,129 (net of tax was \$614) as of December 31, 2009. Cumulative other-than-temporary impairment related to credit losses recognized in earnings for our held-to-maturity security is as follows (*in thousands*):

2009

Beginning balance of OTTI credit losses recognized for securities held at the period for which a portion of OTTI was recognized in OCI

\$

-

Additional increases to the amount related to credit loss for which an OTTI was previously recognized

Additional increases to the amount related to credit loss for which an OTTI was not previously recognized

-
1,881

Reductions for securities sold during the period

Ending balance of the amount related to credit losses held at the end of the period for which a portion of OTTI was recognized in OCI

\$

-
1,881

As of December 31, 2009, management has evaluated all other investment securities with unrealized losses and all non-marketable securities for impairment. The unrealized losses were primarily the result of wider liquidity spreads on asset-backed securities and, additionally, increased market volatility on non-agency mortgage and asset-backed securities that are backed by certain mortgage loans. The fair values of these assets have been impacted by various market conditions. In addition, the expected average lives of the asset-backed securities backed by trust preferred securities have been extended, due to changes in the expectations of when the underlying securities would be repaid. The contractual terms and/or cash flows of the investments do not permit the issuer to settle the securities at a price

less than the amortized cost. We have reviewed our asset-backed portfolio with independent third parties and do not believe there is additional OTTI from these securities other than what has already been recorded. We do not intend to sell, nor do we believe we will be required to sell these securities until the fair value is recovered, which may be maturity and, therefore, do not consider them to be other-than-temporarily impaired at December 31, 2009.

NOTE 9 - Bank Loans

The following table presents the balance and associated percentage of each major loan category in Stifel Bank's loan portfolio at December 31, 2009 and 2008 (*in thousands, except percentages*):

December 31, 2009

December 31, 2008

Balance

Percent

Balance

Percent

Consumer (1)

\$

227,436

	67.8
%	
\$	19,662
	10.5
%	
Residential real estate	
	52,086
	15.5
	58,778
	31.4
Home equity lines of credit	
	655

33,369

10.0

28,612

15.3

Commercial

11,294

3.4

27,538

14.7

Commercial real estate

656

	10,152
	3.0
	38,446
	20.6
Construction and land	
	952
	0.3
	13,968
	657

335,289

100.0

%

187,004

100.0

%

Unamortized loan origination costs, net of loan fees

1,556

591

Loans in process

14

(3,878

)

Allowance for loan losses

(1,702

)

659

(2,448

)

\$

335,157

\$

181,269

(1) Includes stock-secured loans of \$226,527 and \$18,861 at December 31, 2009 and 2008, respectively.

Changes in the allowance for loan losses at Stifel Bank were as follows (*in thousands*):

Year Ended December 31,

2009

2008

2007*

Allowance for loan losses, beginning of period

1,923

558

Charge-offs:

Construction and land

(859)

)

(493)

)

(2)

)

663

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Commercial real estate

(294

)

(253

)

-

Real estate construction loans

(213

)

(414

)

-

Other

(25

)

664

	-
	-
Total charge-offs	
)	(1,391
)	(1,160
)	(2
Recoveries	
	41
	-
	2
	665

Allowance for loan losses, end of period

\$ 1,702

\$ 2,448

\$ 1,685

Net charge-offs to average bank loans outstanding, net

0.58

666

%

0.64

%

0.00

%

* The results of Stifel Bank are included prospectively from April 2, 2007, the date of acquisition.

At December 31, 2009 and 2008, Stifel Bank had mortgage loans held for sale of \$91,117 and \$31,246, respectively. Included in loans held for sale are loans that are expected to be assumed as part of the sale of Stifel Bank's branch office of \$33,129. See Note 4 for further discussion. For the years ended December 31, 2009 and 2008, Stifel Bank recognized a gain of \$4,138 and \$2,089, respectively, from the sale of loans originated for sale, net of fees and costs to originate these loans. For the year ended December 31, 2007, the gain recognized from the sale of loans originated for sale was insignificant.

A loan is impaired when it is probable that interest and principal payments will not be made in accordance with the contractual terms of the loan agreement. At December 31, 2009, Stifel Bank had \$1,368 of non-accrual loans that were more than 90 days past due, for which there was a specific allowance of an insignificant amount. Further, Stifel Bank had \$533 in troubled debt restructurings at December 31, 2009. At December 31, 2008, Stifel Bank had \$573 in non-accrual loans, for which there was a specific reserve of \$189. In addition, there were no accrual loans delinquent 90 days or more or troubled debt restructurings at December 31, 2008. Stifel Bank has no exposure to sub-prime mortgages. The gross interest income related to impaired loans, which would have been recorded had these loans been current in accordance with their original terms, and the interest income recognized on these loans during the year, were immaterial to the consolidated financial statements.

At December 31, 2009 and 2008, Stifel Bank had loans outstanding to its executive officers, directors and significant stockholders and their affiliates in the amount of \$590 and \$1,578, respectively, and loans outstanding to other Stifel Financial Corp. executive officers, directors and significant stockholders and their affiliates in the amount of \$994 and \$48, respectively. Such loans and other extensions of credit were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral requirements) as those prevailing at the time for comparable transactions with other persons.

NOTE 10 - Fixed Assets

The following is a summary of fixed assets as of December 31, 2009 and 2008 (*in thousands*):

**December 31,
2009**

December 31,
2008

Furniture and equipment

(54,075

)

\$

62,115

\$

47,765

* Excludes building owned by Stifel Bank that is included in 'Other assets' at December 31, 2009.

For the years ended December 31, 2009, 2008 and 2007, depreciation and amortization of owned furniture and equipment, and leasehold improvements totaled \$17,605, \$12,948, and \$10,643, respectively, and are included in "Occupancy and equipment rental" on the consolidated statements of operations.

NOTE 11 - Goodwill and Intangible Assets

During the year ended December 31, 2009, we acquired 56 branches from the UBS Wealth Management Americas branch network, which created \$33,377 of goodwill. The goodwill associated with the acquisition of these branches is reported in our Global Wealth Management segment at December 31, 2009. See Note 3 for additional information regarding our acquisition of the UBS branches.

Goodwill impairment is tested at the reporting unit level, which is an operating segment or one level below an operating segment on an annual basis. Our reporting units are Private Client Group, Fixed Income Capital Markets, Equity Capital Markets, and Stifel Bank. The goodwill impairment analysis is a two-step test. The first step, used to identify potential impairment, involves comparing each reporting unit's fair value to its carrying value including goodwill. If the fair value of a reporting unit exceeds its carrying value, applicable goodwill is considered not to be impaired. If the carrying value exceeds fair value, there is an indication of impairment and the second step is performed to measure the amount of impairment. No indicators of impairment were identified during our annual impairment testing as of July 31, 2009.

The carrying amount of goodwill and intangible assets attributable to each of our segments is presented in the following table (*in thousands*):

December 31, 2008

Net additions

Impairment losses

December 31, 2009

Goodwill

Global Wealth Management

\$

75,058

\$

37,362

672

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

\$

-

\$

112,420

Capital Markets

53,220

1,085

-

54,305

\$

128,278

\$

38,447

673

\$

-

\$

166,725

December 31, 2008

Net additions

Amortization

December 31, 2009

Intangible assets

Global Wealth Management

\$ 12,242

\$ 11,426

\$ (2,312

)
\$ 21,356

Capital Markets

3,742

-

)	(450
	3,292
\$	15,984
\$	11,426
\$	(2,762
)	
\$	24,648

In addition to the goodwill recorded from our acquisition of the UBS branches, the changes in goodwill during the year ended December 31, 2009 primarily consist of payments for the contingent earn-out of \$4,338 for the Ryan Beck acquisition. In connection with the acquisition of the UBS branches, we recorded an intangible asset of \$9,750 that consisted of customer lists and brokerage relationships, which are subject to amortization. The customer lists reflect the estimated value of customer relationships.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Amortizable intangible assets consist of acquired customer lists, non-compete agreements, and core deposits that are amortized to expense over their contractual or determined useful lives. We stopped amortizing our core deposit intangible during the fourth quarter as a result of the announced sale of the Stifel Bank branch. See Note 4 for further discussion. Intangible assets subject to amortization as of December 31, 2009 and 2008 were as follows (*in thousands*):

December 31, 2009

December 31, 2008

Gross carrying value

Accumulated Amortization

Gross carrying value

Accumulated Amortization

Customer lists

\$

30,754

\$

7,584

679

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

\$	19,533
\$	5,371
Non-compete agreements	
	2,789
	2,371
	2,584
	2,115
Core deposits	
	2,157
	1,097
	680

2,157

804

\$

35,700

\$

11,052

\$

24,274

\$

8,290

Amortization expense related to intangible assets was \$2,762, \$3,081 and \$3,601 for the years ended December 31, 2009, 2008 and 2007, respectively.

The weighted-average remaining lives of the following intangible assets at December 31, 2009 are: customer lists 8.4 years; core deposits 5.5 years; and non-compete agreements 1.9 years. As of December 31, 2009, we expect amortization expense in future periods to be as follows (*in thousands*):

Fiscal year *

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

2010	
\$	
	2,740
2011	
	2,498
2012	
	2,164
2013	
	2,051
2014	
	1,949
	682

Thereafter

12,186

\$

23,588

* The above table does not include the amortization expense associated with our core deposit intangible. We have determined that the assets and liabilities meet the criteria for being classified as held for sale, therefore, we have stopped amortizing the intangible asset.

NOTE 12 - Short-Term Borrowings from Banks

Our short-term financing is generally obtained through the use of bank loans and securities lending arrangements. We borrow from various banks on a demand basis with company-owned and customer securities pledged as collateral. The value of the customer-owned securities used as collateral is not reflected on the consolidated statements of financial condition. We maintain available ongoing credit arrangements with banks that provided a peak daily borrowing of \$379,300 during the year ended December 31, 2009. There are no compensating balance requirements under these arrangements. At December 31, 2009, short-term borrowings from banks were \$90,800 at an average rate of 1.04%, which were collateralized by company-owned securities valued at \$165,150. At December 31, 2008, there were no short-term borrowings from banks. The average bank borrowing was \$107,383, \$132,660 and \$156,778 for the years ended December 31, 2009, 2008 and 2007, respectively, at weighted average daily interest rates of 0.99%, 2.28% and 4.86%, respectively. At December 31, 2009 and 2008, Stifel Nicolaus had a stock loan balance of \$16,667 and \$16,987, respectively, at weighted average daily interest rates of 0.33% and 0.52%, respectively. The average outstanding securities lending arrangements utilized in financing activities were \$53,110, \$105,424 and \$119,590 during the years ended December 31, 2009, 2008 and 2007, respectively, at weighted average daily effective interest rates of 1.07%, 2.47% and 4.82%, respectively. Customer-owned securities were utilized in these arrangements.

NOTE 13 - Bank Deposits

Deposits consist of money market and savings accounts, certificates of deposit and demand deposits. Deposits at December 31, 2009 and 2008 were as follows (*in thousands*):

	December 31, 2009	December 31, 2008
Money market and savings accounts		
\$	993,264	
\$		233,276
Demand deposits (non-interest bearing)		

	19,521
	23,162
Certificates of deposit	
	18,245
	24,102
Demand deposits (interest bearing)	
	16,181
	4,258
\$	
	1,047,211
	685

\$

284,798

The weighted average interest rate on deposits was 0.5% and 0.4% at December 31, 2009 and 2008, respectively.

Scheduled maturities of certificates of deposit at December 31, 2009 and 2008 were as follows (*in thousands*):

**December 31,
2009**

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

December 31,
2008

Certificates of deposit, less than \$100:

Within one year

\$

9,775

\$

8,525

One to three years

514

3,562

687

Over three years

250

1,349

\$

10,539

\$

13,436

Certificates of deposit, \$100 and greater:

Within one year

\$

5,936

\$

7,455

One to three years

1,217

1,949

Over three years

553

689

1,262

\$

7,706

\$

10,666

\$

18,245

\$

24,102

690

At December 31, 2009 and 2008, the amount of deposits includes deposits of related parties, including \$1,008,593 and \$228,653, respectively, of brokerage customer's deposits from Stifel Nicolaus, and interest-bearing and time deposits of executive officers, directors and significant stockholders and their affiliates of \$391 and \$750, respectively. Such deposits were made in the ordinary course of business and were made on substantially the same terms (including interest rates) as those prevailing at the time for comparable transactions with other persons.

NOTE 14 - Federal Home Loan Bank Advances and Other Secured Financing

At December 31, 2009, Stifel Bank had \$2,000 of credit extended from the Federal Home Loan Bank, consisting of advances. The FHLB advance is at a rate of 3.20% and matures on April 30, 2010. At December 31, 2008, Stifel Bank had \$6,000 in advances outstanding. The average Federal Home Loan Bank advances outstanding were \$3,304, \$10,739 and \$3,642 in 2009, 2008 and 2007, respectively, at weighted average daily interest rates of 3.12%, 2.56% and 5.32%, respectively.

In 2009, Stifel Bank had an insignificant amount of average federal funds and repurchase agreements outstanding. In 2008 and 2007, Stifel Bank had average federal funds and repurchase agreements outstanding of \$887 and \$119, respectively, at weighted average interest rates of 2.30% and 3.33%, respectively.

NOTE 15 - Debentures to Stifel Financial Capital Trusts

On August 12, 2005, we completed a private placement of \$35,000 of 6.38% Cumulative Trust Preferred Securities. The trust preferred Securities were offered by Stifel Financial Capital Trust II (the "Trust II"), a non-consolidated wholly-owned subsidiary of our company. The trust preferred securities mature on September 30, 2035, but may be redeemed by our company, and in turn, the Trust II would call the debenture beginning September 30, 2010. The Trust II requires quarterly distributions of interest to the holders of the trust preferred securities. Distributions will be payable at a fixed interest rate equal to 6.38% per annum from the issue date to September 30, 2010 and then will be payable at a floating interest rate equal to three-month London Interbank Offered Rate ("LIBOR") plus 1.70% per annum. The trust preferred securities represent an indirect interest in a junior subordinated debenture purchased from our company by the Trust II. The debenture bears the same terms as the trust preferred securities and is presented as "Debenture to Stifel Financial Capital Trust II" on the consolidated statements of financial condition.

On March 30, 2007, we completed a private placement of \$35,000 of 6.79% Cumulative Trust Preferred Securities. The trust preferred securities were offered by Stifel Financial Capital Trust III (the "Trust III"), a non-consolidated wholly-owned subsidiary of our company. The trust preferred securities mature on June 6, 2037, but may be redeemed by our company and in turn, Trust III would call the debenture beginning June 6, 2012. Trust III requires quarterly distributions of interest to the holders of the trust preferred securities. Distributions will be payable quarterly in arrears at a fixed interest rate equal to 6.79% per annum from the issue date to June 6, 2012 and then will be payable at a floating interest rate equal to three-month LIBOR plus 1.85% per annum. The trust preferred securities represent an indirect interest in a junior subordinated debenture purchased from our company by Trust III. The debenture bears the same terms as the trust preferred securities and is presented as "Debentures to Stifel Financial Capital Trust III" on the consolidated statements of financial condition. The net proceeds from the sale of the Junior Subordinated Debentures to Trust III were utilized to fund the acquisition of Stifel Bank.

On June 28, 2007, we completed a private placement of \$35,000 of 6.78% Cumulative Trust Preferred Securities. The trust preferred securities were offered by Stifel Financial Capital Trust IV (the "Trust IV"), a non-consolidated wholly-owned subsidiary of our company. The trust preferred securities mature on September 6, 2037, but may be redeemed by our company and in turn, Trust IV would call the debenture beginning September 6, 2012. Trust IV requires quarterly distributions of interest to the holders of the trust preferred securities. Distributions will be payable quarterly in arrears at a fixed interest rate equal to 6.78% per annum from the issue date to September 6, 2012 and then will be payable at a floating interest rate equal to three-month LIBOR plus 1.85% per annum. The trust preferred securities represent an indirect interest in a junior subordinated debenture purchased from our company by Trust IV. The debenture bears the same terms as the trust preferred securities and is presented as "Debentures to Stifel Financial Capital Trust IV" on the consolidated statements of financial condition. The net proceeds from the sale of the Junior Subordinated Debentures to Trust IV were used to call on July 13, 2007 our \$34,500, 9% Cumulative Trust Preferred Securities, issued through Stifel Financial Capital Trust I on April 25, 2002 and callable June 30, 2007.

On November 28, 2007, we purchased \$10,000 par value of 6.78% Cumulative Trust Preferred Securities in an open market transaction for \$6,250. The Cumulative Trust Preferred Securities were originally offered and sold by Stifel Financial Capital Trust IV. As a result, we extinguished \$10,000 of our debenture to Stifel Financial Capital IV and recorded an approximate \$3,750 gain before certain expenses and taxes in the fourth quarter of 2007 reflected in other revenues on the consolidated statements of operations.

Additionally, on November 4, 2008, we issued 142,196 shares of our common stock in exchange for \$12,500 par value of 6.78% Cumulative Trust Preferred Securities, originally offered and sold by Stifel Financial Capital Trust IV. As a result, we extinguished \$12,500 of our debenture to Stifel Financial Capital Trust IV in the fourth quarter of 2008 and recorded an approximate \$6,700 gain before certain expenses and taxes reflected in other revenues on the consolidated statements of operations.

NOTE 16 - Derivative Instruments and Hedging Activities

Stifel Bank uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps generally involve the exchange of fixed and variable rate interest payments between two parties, based on a common notional principal amount and maturity date with no exchange of underlying principal amounts. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for our company making fixed payments.

The following table provides the notional values and fair values of Stifel Bank's derivative instruments as of December 31, 2009 (*in thousands*):

As of December 31, 2009

Asset derivatives

Liability derivatives

Notional Value

Balance sheet location

Positive fair value

Balance sheet location

Negative fair value

Derivatives designated as hedging instruments under ASC 815:

Cash flow interest rate contracts

\$

403,503

Other assets

\$

157

Accounts payable and accrued expenses

\$

(78

)

Cash Flow Hedges

Stifel Bank has entered into interest rate swap agreements that effectively modify its exposure to interest rate risk by converting floating rate debt to a fixed rate debt over the next ten years. The agreements involve the receipt of floating rate amounts in exchange for fixed rate interest payments over the life of the agreement without an exchange of underlying principal amounts.

Any unrealized gains or losses related to cash flow hedging instruments are reclassified from other comprehensive loss into earnings in the same period or periods during which the hedged forecasted transaction affects earnings and are recorded in interest expense on the accompanying statements of operations. Adjustments related to the ineffective portion of the cash flow hedging instruments are recorded in other income or other expense. There was no ineffectiveness recognized during the year ended December 31, 2009.

At December 31, 2009, we expect to reclassify \$3,363 of net losses, net of tax benefits, on derivative instruments from cumulative other comprehensive income/(loss) to earnings during the next 12 months as terminated swaps are amortized and as interest payments on derivative instruments occur.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

The following table shows the effect of our company's derivative instruments on the consolidated statements of operations for the year ended December 31, 2009 (*in thousands*):

Gain/(loss) recognized in OCI (effectiveness)

Location of gain/(loss) reclassified from OCI into income

Gain/(loss) reclassified from OCI into income

Location of gain/(loss) recognized in OCI (ineffectiveness)

Gain/(loss) recognized due to ineffectiveness

For the year ended December 31, 2009:

Cash flow interest rate contracts

\$

(1,540

)

Interest expense

\$

(1,619

)

None

\$

-

We maintain a risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings caused by interest rate volatility. Our goal is to manage sensitivity to changes in rates by hedging the maturity characteristics of Fed-funds based affiliated deposits, thereby limiting the impact on earnings. By using derivative instruments, we are exposed to credit and market risk on those derivative positions. We manage the market risk associated with interest rate contracts by establishing and monitoring limits as to the types and degree of risk that may be undertaken. Credit risk is equal to the extent of the fair value gain in a derivative, if the counterparty fails to perform. When the fair value of a derivative contract is positive, this generally indicates that the counterparty owes our company and, therefore, creates a repayment risk for our company. When the fair value of a derivative contract is negative, we owe the counterparty and therefore, have no repayment risk. See Note 6 for further

discussion on how we determine the fair value of our financial instruments. We minimize the credit (or repayment) risk in derivative instruments by entering into transactions with high-quality counterparties that are reviewed periodically by senior management.

Credit Risk-Related Contingency Features

We have agreements with our derivative counterparties containing provisions where if we default on any of our indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then we could also be declared in default on our derivative obligations.

We have agreements with certain of our derivative counterparties that contain provisions where if our shareholders' equity declines below a specified threshold or if we fail to maintain a specified minimum shareholders' equity, then we could be declared in default on our derivative obligations.

Finally, certain of our company's agreements with its derivative counterparties contain provisions where if a specified event or condition occurs that materially changes our creditworthiness in an adverse manner, we may be required to fully collateralize our obligations under the derivative instrument.

Regulatory Capital-Related Contingency Features

Certain of Stifel Bank's derivative instruments contain provisions that require it to maintain its capital adequacy requirements. If Stifel Bank were to lose its status as "adequately capitalized," it would be in violation of those provisions, and the counterparties of the derivative instruments could request immediate payment or demand immediate and ongoing full overnight collateralization on derivative instruments in net liability positions.

As of December 31, 2009 the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was \$663. We have minimum collateral posting thresholds with certain of our derivative counterparties, and have posted collateral of \$6,200 against our obligations under these agreements. If we had breached any of these provisions at December 31, 2009, we would have been required to settle our obligations under the agreements at the termination value.

Counterparty Risk

In the event of counterparty default, our economic loss may be higher than the uncollateralized exposure of our derivatives if we were not able to replace the defaulted derivatives in a timely fashion. We monitor the risk that our uncollateralized exposure to each of our counterparties for interest rate swaps will increase under certain adverse market conditions by performing periodic market stress tests. These tests evaluate the potential additional uncollateralized exposure we would have to each of these derivative counterparties assuming changes in the level of market rates over a brief time period.

NOTE 17 - Liabilities Subordinated to Claims of General Creditors

Stifel Nicolaus maintains a deferred compensation plan for its financial advisors who achieve certain levels of production, whereby a certain percentage of their earnings are deferred as defined by the plan, of which 50% is deferred into company stock units and 50% is deferred in mutual funds that earn a return based on the performance of index mutual funds as designated by our company or a fixed income option. We obtained approval from the New York Stock Exchange to subordinate the liability for future payments for the portion of compensation that is not deferred in stock units. Required annual payments, as of December 31, 2009, are as follows (*in thousands*):

Distribution - January 31,

	Plan year	
	Total	
2010		
	2004	
\$		1,391
2011		

2005

1,474

2012

2006

1,722

2013

2007

2,328

2014

2008

702

\$

10,081

The subordinated liabilities are subject to cash subordination agreements approved by FINRA and, therefore, are included in our computation of net capital under the SEC's Uniform Net Capital Rule. We have estimated the fair value of the liability to be \$9,299 as of December 31, 2009.

NOTE 18 - Commitments and Contingencies

Concentration of Credit Risk

We provide investment, capital-raising and related services to a diverse group of domestic customers, including governments, corporations, and institutional and individual investors. Our company's exposure to credit risk associated with the non-performance of customers in fulfilling their contractual obligations pursuant to securities transactions can be directly impacted by volatile securities markets, credit markets and regulatory changes. To alleviate the potential for risk concentrations, counterparty credit limits have been implemented for certain products and are continually monitored in light of changing customer and market conditions. As of December 31, 2009 and 2008, we did not have significant concentrations of credit risk with any one customer or counterparty, or any group of customers or counterparties.

Other Commitments

In the normal course of business, we enter into underwriting commitments. Settlement of transactions relating to such underwriting commitments, which were open at December 31, 2009, had no material effect on the consolidated financial statements.

In connection with margin deposit requirements of The Options Clearing Corporation, we pledged customer-owned securities valued at \$84,376 to satisfy the minimum margin deposit requirement of \$42,663 at December 31, 2009.

In connection with margin deposit requirements of the National Securities Clearing Corporation, we deposited \$23,600 in cash at December 31, 2009, which satisfied the minimum margin deposit requirements of \$8,431.

We also provide guarantees to securities clearinghouses and exchanges under their standard membership agreement, which requires members to guarantee the performance of other members. Under the agreement, if another member becomes unable to satisfy its obligations to the clearinghouse, other members would be required to meet shortfalls. Our company's liability under these agreements is not quantifiable and may exceed the cash and securities it has posted as collateral. However, the potential requirement for our company to make payments under these arrangements is considered remote. Accordingly, no liability has been recognized for these arrangements.

On December 28, 2009, we announced that Stifel Nicolaus had reached an agreement between the State of Missouri, the State of Indiana, the State of Colorado and with an association of other State securities regulatory authorities regarding the repurchase of ARS from Eligible ARS investors. As part of the modified ARS repurchase offer we have accelerated the previously announced repurchase plan. We have agreed to repurchase ARS from Eligible ARS investors in four phases starting in January 2010 and ending on December 31, 2011. At December 31, 2009, we estimate that our retail clients held \$124,383 of eligible ARS after issuer redemptions of \$23,370 and Stifel repurchases of \$60,000.

As part of the first phase of the modified ARS repurchase offer, completed in January 2010, we estimate that we will repurchase at par the greater of ten percent or twenty-five thousand dollars of eligible ARS of \$21,175. The remaining three phases of the modified ARS repurchase offer will be completed by December 31, 2011. During phases two and three, which will be completed by December 31, 2010, we estimate that we will repurchase ARS, in total, of \$20,050. During phase four, we estimate that we will repurchase ARS of \$78,133, which will be completed December 31, 2011.

We have recorded a liability for our estimated exposure to the voluntary repurchase plan based upon a net present value calculation, which is subject to change and future events, including redemptions. ARS redemptions have been at par and we believe will continue to be at par over the voluntary repurchase period. Future periods' results may be affected by changes in estimated redemption rates or changes in the fair value of ARS.

In the ordinary course of business, Stifel Bank has commitments to extend credit in the form of commitments to originate loans, standby letters of credit, and lines of credit. See Note 22 for further details.

Operating leases and purchase obligations

We have noncancelable operating leases for office space and equipment and purchase obligations for services such as professional services and hardware-and-software related agreements. Future minimum commitments under these operating leases and purchase obligations at December 31, 2009 are as follows (*in thousands*):

Operating leases

Purchase obligations

Total

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

\$

38,000

23,507

\$

61,507

2011

32,515

9,009

41,524

2012

27,359

2,318

705

	29,677
2013	
	23,958
	236
	24,194
2014	
	20,122
	16
	20,138
Thereafter	
	58,081
	706

	58,083
\$	
	200,035
\$	
	35,088
\$	
	235,123

Certain leases contain provisions for renewal options and escalation clauses based on increases in certain costs incurred by the lessor. We amortize office lease incentives and rent escalation on a straight-line basis over the life of the lease. Rent expense for the years ended December 31, 2009, 2008 and 2007 was \$40,855, \$31,736 and \$29,614,

respectively.

Note 19 - Legal Proceedings

Our company and its subsidiaries are named in and subject to various proceedings and claims arising primarily from our securities business activities, including lawsuits, arbitration claims, class actions, and regulatory matters. Some of these claims seek substantial compensatory, punitive, or indeterminate damages. Our company and its subsidiaries are also involved in other reviews, investigations and proceedings by governmental and self-regulatory organizations regarding our business, which may result in adverse judgments, settlements, fines, penalties, injunctions and other relief. We are contesting the allegations in these claims, and we believe that there are meritorious defenses in each of these lawsuits, arbitrations and regulatory investigations. In view of the number and diversity of claims against the company, the number of jurisdictions in which litigation is pending and the inherent difficulty of predicting the outcome of litigation and other claims, we cannot state with certainty what the eventual outcome of pending litigation or other claims will be. In our opinion, based on currently available information, review with outside legal counsel, and consideration of amounts provided for in our consolidated financial statements with respect to these matters, the ultimate resolution of these matters will not have a material adverse impact on our financial position. However, resolution of one or more of these matters may have a material effect on the results of operations in any future period, depending upon the ultimate resolution of those matters and depending upon the level of income for such period.

The regulatory investigations include inquiries from the SEC, FINRA and several state regulatory authorities requesting information concerning our activities with respect to auction rate securities ("ARS"), and inquiries from the SEC and a state regulatory authority requesting information relating to our role in investments made by five Southeastern Wisconsin school districts (the "school districts") in transactions involving collateralized debt obligations ("CDOs"). We intend to cooperate fully with the SEC, FINRA and the several states in these investigations.

On or about December 28, 2009, an agreement in principle was reached between the State of Missouri, the State of Indiana, the State of Colorado and with an association of other State securities regulatory authorities related to previously disclosed ARS matters. The agreement provided, among other things: for the dismissal with prejudice of all actions filed against Stifel Nicolaus and its agents; for the modification of the previously disclosed ARS repurchase offer; for the payment of: five hundred and twenty five thousand dollars for fines and penalties to state securities regulatory authorities; two hundred and fifty thousand dollars to the State of Missouri for costs, expenses and other payments; twenty five thousand dollars to the State of Indiana for costs of investigation; for the retention of an outside consultant not unacceptable to the Missouri and Indiana Securities Commissioners concerning Stifel Nicolaus' Supervisory Policies and Procedures regarding certain types of investment products; and, subject to applicable regulatory requirements and limitations, for Stifel Nicolaus to cooperate with its bank affiliate to use its best efforts to make no net cost loans to Eligible ARS investors, provided such investors have a demonstrated need for liquidity.

As part of the modified ARS repurchase offer we have accelerated the previously disclosed repurchase plan. The second repurchase from Eligible ARS investors of the greater of 10% or twenty five thousand dollars of Eligible ARS, originally planned for June 30, 2010, was completed in January 2010. We will follow up with similar repurchases in December 2010 and December 2011. The accelerated plan exceeds the initial target date for completing the voluntary repurchase program - June 2012 - by six months. A supplemental repurchase will be made of any Eligible ARS remaining after the one in December 2010 for Eligible ARS investors who held ARS totaling one hundred and fifty thousand dollars or less as of January 1, 2009.

We are named in a civil lawsuit filed in the United States District Court for the Eastern District of Missouri (the "Missouri Federal Court") on August 8, 2008 seeking class action status for investors who purchased and continue to hold ARS offered for sale between June 11, 2003 and February 13, 2008, the date when most auctions began to fail and the auction market froze, which alleges misrepresentation about the investment characteristics of ARS and the auction markets (the "ARS Class Action"). We believe that, based upon currently available information and review with outside counsel, we have meritorious defenses to this lawsuit, and intend to vigorously defend all claims asserted therein. Furthermore, approximately 97% of the Eligible ARS investors have agreed to participate in the ARS

repurchase offer.

We are also named in a civil lawsuit filed in the Circuit Court of Milwaukee, Wisconsin (the "Wisconsin State Court") on September 29, 2008. The lawsuit has been filed against our company and Stifel Nicolaus, Royal Bank of Canada Europe Ltd. ("RBC") and certain other RBC entities (collectively the "Defendants") by the school districts and the individual trustees for other post-employment benefit ("OPEB") trusts established by those school districts (the "Plaintiffs"). The suit was removed to the United States District Court for the Eastern District of Wisconsin (the "Wisconsin Federal Court") on October 31, 2008, which remanded the case to the Wisconsin State Court on April 10, 2009.

The suit arises out of the purchase of certain CDOs by the OPEB trusts. The RBC entities structured and served as "arranger" for the CDOs. We served as placement agent/broker in connection with the OPEB trusts' purchase of the investments. The total amount of the investments made by the OPEB trusts was \$200,000. Plaintiffs assert that the school districts contributed \$37,500 to the OPEB trusts to purchase the investments. The balance of \$162,500 used to purchase the investments was borrowed by the OPEB trusts from Depfa Bank. The recourse of the lender is each of the OPEB trusts' respective assets and the moral obligations of each school district. The legal claims asserted include violation of the Wisconsin Securities Act, fraud and negligence. The lawsuit seeks equitable relief, unspecified compensatory damages, treble damages, punitive damages and attorney's fees and costs. The Plaintiffs claim that the RBC entities and our company either made misrepresentations or failed to disclose material facts in connection with the sale of the CDOs in violation of the Wisconsin Securities Act. We believe the Plaintiffs reviewed and understood the relevant offering materials and that the investments were suitable based upon, among other things, our receipt of written acknowledgement of risks from each of the Plaintiffs. The Wisconsin State Court recently denied the Defendants' motions to dismiss, and the Defendants will formally respond to the allegations of the Second Amended Complaint. We believe, based upon currently available information and review with outside counsel, that we have meritorious defenses to this lawsuit, and intend to vigorously defend all of the Plaintiffs' claims.

NOTE 20 - Regulatory Capital Requirements

Distributions from our broker-dealer subsidiaries are subject to net capital rules. A broker-dealer that fails to comply with the SEC's Uniform Net Capital Rule (Rule 15c3-1) may be subject to disciplinary actions by the SEC and self-regulatory organizations, such as FINRA, including censures, fines, suspension, or expulsion. Stifel Nicolaus has chosen to calculate its net capital under the alternative method, which prescribes that its net capital shall not be less than the greater of \$1,000, or two percent of aggregate debit balances (primarily receivables from customers) computed in accordance with the SEC's Customer Protection Rule (Rule 15c3-3). CSA calculates its net capital under the aggregate indebtedness method whereby its aggregate indebtedness may not be greater than fifteen times its net capital (as defined). Stifel Nicolaus and CSA have consistently operated in excess of their capital adequacy requirements. The only restriction with regard to the payment of cash dividends by our company is its ability to obtain cash through dividends and advances from its subsidiaries, if needed.

At December 31, 2009, Stifel Nicolaus had net capital of \$187,515, which was 39.4% of aggregate debit items and \$178,004 in excess of our minimum required net capital. CSA had net capital of \$3,378, which was \$3,199 in excess of its minimum required net capital.

Our international subsidiary, SN Ltd, is subject to the regulatory supervision and requirements of the Financial Services Authority ("FSA") in the United Kingdom. At December 31, 2009, SN Ltd's capital and reserves were \$7,152, which was \$6,594 in excess of the financial resources requirement under the rules of the FSA.

Our company, as a bank holding company, and Stifel Bank are subject to various regulatory capital requirements administered by the Federal Reserve Board and the Missouri State Division of Finance, respectively. Additionally, Stifel Bank is regulated by the FDIC. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on our company's and Stifel Bank's financial results. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, our company and Stifel Bank must meet specific capital guidelines that involve quantitative measures of our assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. Our company's and Stifel Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Quantitative measures established by regulation to ensure capital adequacy require our company, as a bank holding company, and Stifel Bank to maintain minimum amounts and ratios of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and Tier 1 capital to average assets (as defined). Management believes, as of December 31, 2009, that our company and Stifel Bank meet all capital adequacy requirements to which they are subject and are considered to be categorized as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," our company and Stifel Bank must maintain total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the tables below.

Stifel Financial Corp. - Federal Reserve Capital Amounts

Actual

For Capital Adequacy Purposes

To be Well Capitalized Under Prompt Corrective Action Provisions

Amount

Ratio

Amount

Ratio

Amount

Ratio

Total capital to risk-weighted assets

\$

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

	720,138
	40.6
%	
\$	
	141,862
	8.0
%	
\$	
	177,328
	10.0
%	
Tier 1 capital to risk-weighted assets	
	718,436
	40.5
	70,931
	713

4.0

106,397

6.0

Tier 1 capital to adjusted average total assets

718,436

30.5

94,146

4.0

117,682

5.0

714

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Stifel Bank - Federal Reserve Capital Amounts

Actual

For Capital Adequacy Purposes

To be Well Capitalized Under Prompt Corrective Action Provisions

Amount

Ratio

Amount

Ratio

Amount

Ratio

Total capital to risk-weighted assets

\$ <

83,851

14.5

%

716

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

\$

46,371

%

8.0

\$

57,963

%

10.0

Tier 1 capital to risk-weighted assets

82,149

14.2

23,185

4.0

34,778

717

6.0

Tier 1 capital to adjusted average total assets

82,149

7.6

43,292

4.0

54,115

5.0

NOTE 21 - Employee Incentive, Deferred Compensation and Retirement Plans

We maintain several incentive stock award plans that provide for the granting of stock options, stock appreciation rights, restricted stock, performance awards and stock units to our employees. Awards under our company's incentive stock award plans are granted at market value at the date of grant. Options expire ten years from the date of grant. The awards generally vest ratably over a three- to eight-year vesting period.

All stock-based compensation plans are administered by the Compensation Committee of the Board of Directors of the Parent, which has the authority to interpret the plans, determine to whom awards may be granted under the plans, and determine the terms of each award. According to these plans, we are authorized to grant an additional 3,787,868 shares at December 31, 2009.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Stock-based compensation expense included in "Compensation and benefits" on the consolidated statements of operations for our company's incentive stock award plans was \$45,744, \$52,594 and \$54,640 for the years ended December 31, 2009, 2008 and 2007, respectively. The related income tax benefit recognized in income was \$13,337, \$10,762 and \$8,358 for the years ended December 31, 2009, 2008 and 2007, respectively.

Stock Options

We have substantially eliminated the use of stock options as a form of compensation. During the year ended December 31, 2009, no options were granted.

A summary of option activity under the plans as of December 31, 2009, and changes during the year then ended is presented below (*in thousands, except exercise price and contractual terms*):

Options

Weighted- average exercise price

Weighted-average remaining contractual term

Aggregate intrinsic value

Outstanding December 31, 2008

1,367

\$

7.93

Granted

-

\$

-

Exercised

380

\$

6.14

Forfeited

-

\$

-

Expired

-

\$

-

Outstanding December 31, 2009

987

\$

8.63

2.99

\$

49,964

723

Exercisable December 31, 2009

946

\$

7.94

2.84

\$

48,509

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

At December 31, 2009, there was \$358 of unrecognized compensation expense related to non-vested options. The expense is expected to be recognized over a weighted-average period of 1.32 years. The total intrinsic value of options exercised during the years 2009, 2008, and 2007 was \$10,907, \$10,344, and \$9,147, respectively. The fair value of options vested during the years ended December 31, 2009, 2008 and 2007 was \$4,223, \$4,394 and \$6,963, respectively. Cash proceeds from the exercise of stock options were \$2,344, \$2,210 and \$3,315 for 2009, 2008 and 2007, respectively. Tax benefits realized from the exercise of stock options were \$4,310, \$4,078 and \$3,483 for 2009, 2008, and 2007, respectively.

Stock Units

A stock unit represents the right to receive a share of common stock from our company at a designated time in the future without cash payment by the employee and is issued in lieu of cash incentive, principally for deferred compensation and employee retention plans. At December 31, 2009, the total number of stock units outstanding was 7,088,598.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

A summary of 2009 activity for unvested stock units is presented below *(in thousands, except weighted-average fair value)*:

Stock Units

Weighted-average grant date fair value

Unvested December 31, 2008

4,428

\$

Granted

2,109

\$

41.10

726

Vested

(1,337

)

\$

Cancelled

(175

)

\$

Unvested December 31, 2009

5,025

\$

At December 31, 2008 there was unrecognized compensation cost for stock units of \$127,931, which is expected to be recognized over a weighted-average period of 3.04 years.

Deferred Compensation Plans

Our company's Deferred Compensation Plan (the "Plan") is provided to certain revenue producers, officers, and key administrative employees, whereby a certain percentage of their incentive compensation is deferred as defined by the Plan into company stock units with a 25% matching contribution by our company. Participants may elect to defer up to an additional 15% of their incentive compensation with a 25% matching contribution. Units generally vest over a three- to five-year period and are distributable upon vesting or at future specified dates. Deferred compensation costs are amortized on a straight-line basis over the vesting period. Elective deferrals are 100% vested. We charged \$24,468, \$35,097 and \$27,445 to "Compensation and benefits" on the consolidated statement of operations for the years ended December 31, 2009, 2008 and 2007, respectively, relating to units granted under the Plan. As of December 31, 2009, there were 2,714,672 units outstanding under the Plan.

Additionally, Stifel Nicolaus maintains a deferred compensation plan for its financial advisors who achieve certain levels of production, whereby a certain percentage of their earnings are deferred as defined by the plan, of which 50% is deferred into company stock units with a 25% matching contribution and 50% is deferred in mutual funds that earn a return based on the performance of index mutual funds as designated by our company or a fixed income option. Financial advisors may elect to defer an additional 1% of earnings into company stock units with a 25% matching contribution. Financial advisors have no ownership in the mutual funds. Included on the consolidated statements of financial condition under the caption "Investments" are \$28,597 and \$23,082 at December 31, 2009 and 2008, respectively, in mutual funds that were purchased by our company to economically hedge, on an after-tax basis, its liability to the financial advisors who choose to base the performance of their return on the index mutual fund option. At December 31, 2009 and 2008, the deferred compensation liability of \$26,728 and \$23,882, respectively, is included in "Accrued employee compensation" on the consolidated statements of financial condition.

In addition, certain financial advisors, upon joining our company, may receive company stock units in lieu of transition cash payments. Deferred compensation related to these awards generally vests over a five to eight-year period. Deferred compensation costs are amortized on a straight-line basis over the deferral period.

Charges to "Compensation and benefits" related to these plans were \$20,113, \$11,692 and \$7,565 for the years ended December 31, 2009, 2008 and 2007, respectively. As of December 31, 2009, there were 3,475,645 units outstanding under the two plans.

Employee Stock Ownership Plans

We have an internally leveraged employee stock ownership plan ("ESOP") in which qualified employees of our company, as defined in the ESOP participate. We make annual contributions to the ESOP in an amount determined by the Compensation Committee of the Board of Directors on behalf of all eligible employees based upon the relationship of individual compensation to total compensation.

The ESOP shares were initially pledged as collateral for its debt. As the debt is repaid, shares are released from collateral and allocated to active participants. The remaining collateral shares are reported as a reduction to paid-in capital in equity. As shares are committed to be released, the Company reports compensation expense equal to the current market value of the shares.

Compensation expense of \$1,555, \$1,212 and \$1,089 relating to the ESOP was recorded for the years ended December 31, 2009, 2008 and 2007, respectively. The ESOP trust owned 457,947 and 441,423 shares of common stock at December 31, 2009 and 2008, respectively. At December 31, 2009 and 2008, there were 113,885 and 146,421 shares held in suspense with a fair value of \$6,747 and \$6,713, respectively.

Retirement Plans

Eligible employees of our company who have met certain service requirements may participate in the Stifel Nicolaus Profit Sharing 401(k) Plan (the "Profit Sharing Plan"). Under the Profit Sharing Plan, participants can purchase up to 500,000 shares of our common stock. We may match certain employee contributions or make additional contributions to the Profit Sharing Plan at our discretion. Our contributions to the Profit Sharing Plan amounted to \$3,076, \$1,871, and \$2,058 for the years ended December 31, 2009, 2008 and 2007, respectively.

NOTE 22 - Off-Balance Sheet Credit Risk

In the normal course of business, we execute, settle, and finance customer and proprietary securities transactions. These activities expose our company to off-balance sheet risk in the event that customers or other parties fail to satisfy their obligations.

In accordance with industry practice, securities transactions generally settle within three business days after trade date. Should a customer or broker fail to deliver cash or securities as agreed, we may be required to purchase or sell securities at unfavorable market prices.

We borrow and lend securities to facilitate the settlement process and finance transactions, utilizing customer margin securities held as collateral. We monitor the adequacy of collateral levels on a daily basis. We periodically borrow from banks on a collateralized basis utilizing firm and customer margin securities in compliance with SEC rules. Should the counterparty fail to return customer securities pledged, we are subject to the risk of acquiring the securities at prevailing market prices in order to satisfy our customer obligations. We control our exposure to credit risk by continually monitoring our counterparties' positions and, where deemed necessary, we may require a deposit of additional collateral and/or a reduction or diversification of positions. Our company sells securities it does not currently own (short sales) and is obligated to subsequently purchase such securities at prevailing market prices. We are exposed to risk of loss if securities prices increase prior to closing the transactions. We control our exposure to price risk from short sales through daily review and setting position and trading limits.

We manage our risks associated with the aforementioned transactions through position and credit limits, and the continuous monitoring of collateral. Additional collateral is required from customers and other counterparties when appropriate.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

We have accepted collateral in connection with resale agreements, securities borrowed transactions, and customer margin loans. Under many agreements, we are permitted to sell or repledge these securities held as collateral and use these securities to enter into securities lending arrangements or to deliver to counterparties to cover short positions. At December 31, 2009, the fair value of securities accepted as collateral where we are permitted to sell or repledge the securities was \$792,094, and the fair value of the collateral that had been sold or repledged was \$201,638. At December 31, 2008, the fair value of securities accepted as collateral where we are permitted to sell or repledge the securities was \$432,751, and the fair value of the collateral that had been sold or repledged was \$123,415.

Derivatives' notional contract amounts are not reflected as assets or liabilities on the consolidated statements of financial condition. Rather, the market, or fair value, of the derivative transactions are reported on the consolidated statements of financial condition as other assets or accounts payable and accrued expenses, as applicable.

We enter into interest rate derivative contracts to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. Our derivative financial instruments are principally used to manage differences in the amount, timing, and duration of our known or expected cash payments related to certain variable-rate affiliated deposits. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for us making fixed-rate payments. Our interest rate hedging strategies may not work in all market environments and as a result may not be effective in mitigating interest rate risk.

For a complete discussion of our activities related to derivative instruments, see Note 16 in the notes to our consolidated financial statements.

In the ordinary course of business, Stifel Bank has commitments to originate loans, standby letters of credit and lines of credit. Commitments to originate loans are agreements to lend to a customer as long as there is no violation of any condition established by the contract. These commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since a portion of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash commitments. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if necessary, is based on the credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate.

At December 31, 2009 and 2008, Stifel Bank had outstanding commitments to originate loans aggregating \$91,670 and \$86,327, respectively. The commitments extended over varying periods of time with all commitments at December 31, 2009 scheduled to be disbursed in the following two months.

Standby letters of credit are irrevocable conditional commitments issued by Stifel Bank to guarantee the performance of a customer to a third-party. Financial standby letters of credit are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. Performance standby letters of credit are issued to guarantee performance of certain customers under non-financial contractual obligations. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers. Should Stifel Bank be obligated to perform under the standby letters of credit, it may seek recourse from the customer for reimbursement of amounts paid. At December 31, 2009 and 2008, Stifel Bank had outstanding letters of credit totaling \$1,047 and \$414, respectively. For all but one of the standby letters of credit commitments at December 31, 2009, the expiration terms are less than one year. The remaining commitment, in the amount of \$10, has an expiration term of April 2013.

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Since a portion of the line may expire without being drawn upon, the total unused lines do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if necessary, is based on the credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. Stifel Bank uses the same credit policies in granting lines of credit as it does for on-balance sheet instruments. At December 31, 2009 and 2008, Stifel Bank had granted unused lines of credit to commercial and consumer borrowers aggregating \$27,148 and \$18,153, respectively.

NOTE 23 - Income Taxes

The provision for income taxes consists of the following *(in thousands)*:

Year Ended December 31,

2009

2008

2007

Current taxes:

Federal

\$

46,646

\$

35,400

\$

29,101

State

10,854

7,525

732

5,864

57,500

42,925

34,965

Deferred taxes:

)	(6,658
)	(13,289
Provision for income taxes	
\$	44,616
\$	36,267
\$	21,676

Reconciliation of the statutory federal income tax rate with our company's effective income tax rate:

Year Ended December 31,

2009

2008

2007

Statutory rate

35.0

%

	35.0
%	
	35.0
%	
State income taxes, net of federal income tax benefit	
	5.0
	4.7
	3.9
Investment and jobs creation state tax credit, net of federal income tax effect	
	(2.9)
)	
	-
	-
Other, net	

	-
)	(0.2
	1.4
Effective tax rate	
%	37.1
%	39.5
%	40.3

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Tax effect of temporary differences and carryforwards that comprise significant portions of deferred tax assets and liabilities (*in thousands*):

**December 31,
2009**

December 31, 2008

Deferred tax assets:

Deferred compensation

\$

49,309

\$

36,192

Accrued expenses

	8,336
	8,757
Investment and jobs creation credit	
	2,740
	-
Receivable reserves	
	2,128
	1,811
Unrealized loss on investments	
	2,042
	741

	6,946
Net operating loss carryforward	
	1,152
	1,265
Depreciation	
	-
	264
Other	
	63
	-
	742

65,770

55,235

Deferred tax liabilities:

Prepaid expenses

(2,990

)

(1,727

)

Depreciation

(1,637

743

)		
		(6,171)
)		
Goodwill and other intangibles		
		(7,337)
)		
		-
Other		
		(344)
)		
		-
		(12,308)
)		
		(7,898)
		744

)

Net deferred tax asset

\$

53,462

\$

47,337

We will establish a valuation allowance if either it is more likely than not that the deferred tax asset will expire before we are able to realize their benefits, or the future deductibility is uncertain. We believe that our future taxable income will be sufficient to recognize our deferred tax assets.

As of December 31, 2009, we have net operating loss carryforwards of \$12,471 with expiration dates between 2011 and 2027.

Uncertain Tax Positions

As of December 31, 2009, we had \$2,046 of gross unrecognized tax benefits all of which, if recognized, would affect the effective tax rate. We recognize interest and penalties related to uncertain tax positions in income tax expense. As of December 31, 2009 and 2008, we had accrued interest and penalties of \$422 and \$647, respectively, before benefit of federal tax deduction, recorded on our consolidated statements of financial condition. The amount of interest and penalties recognized on our consolidated statements of operations for the years ended December 31, 2009, 2008 and 2007 was not material.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

The following table summarizes the activity related to our company's unrecognized tax benefits from January 1, 2008 to December 31, 2009 (*in thousands*):

	December 31, 2009	December 31, 2008
Beginning balance		
\$	2,015	
\$		2,869
Increase related to prior year tax positions		

	303
	109
Decrease related to prior year tax positions	
	(157
)	
	(530
)	
Increase related to current year tax positions	
	233
	254
Decreases related to settlements with taxing authorities	
	(319
)	
	747

	(572)
)	
Decreases related to lapsing of statute of limitations	
	(29)
)	
	(115)
)	
Ending balance	
\$	
	2,046
\$	
	2,015

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

We file income tax returns with the U.S. federal jurisdiction, various states, and foreign jurisdictions. We are not subject to U.S. federal, certain state and local or non-U.S. income tax examination by tax authorities for taxable years before 2005. Certain state returns are not subject to examination by tax authorities for taxable years before 2000.

There is a reasonable possibility that the unrecognized tax benefits will change within the next 12 months as a result of the expiration of various statutes of limitations or for the resolution of U.S. federal and state examinations, but we do not expect this change to be material to the consolidated financial statements.

NOTE 24 - Segment Reporting

We currently operate through the following three business segments: Global Wealth Management; Capital Markets; and various corporate activities combined in the Other segment. The UBS branch acquisition and related customer account conversion to our platform has enabled us to leverage our customers' assets, which allows us the ability to provide a full array of financial products to both our Private Client Group and Stifel Bank customers. As a result, we have changed how we manage these reporting units and consequently they were combined to form the Global Wealth Management segment. Previously reported segment information has been revised to reflect this change.

As a result of organizational changes in the second quarter of 2009, which included a change in the management reporting structure of our company, the segments formerly reported as Equity Capital Markets and Fixed Income Capital Markets have been combined into a single segment called Capital Markets. Previously reported segment information has been revised to reflect this change.

Our Global Wealth Management segment consists of two businesses, the Private Client Group and Stifel Bank. The Private Client Group includes branch offices and independent contractor offices of our broker-dealer subsidiaries located throughout the United States, primarily in the Midwest and Mid-Atlantic regions with a growing presence in the Northeast, Southeast and Western United States. These branches provide securities brokerage services, including the sale of equities, mutual funds, fixed income products, and insurance, as well as offering banking products to their private clients through Stifel Bank. Stifel Bank segment provides residential, consumer, and commercial lending, as well as FDIC-insured deposit accounts to customers of our broker-dealer subsidiaries and to the general public.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

The Capital Markets segment includes institutional sales and trading. It provides securities brokerage, trading, and research services to institutions with an emphasis on the sale of equity and fixed income products. This segment also includes the management of and participation in underwritings for both corporate and public finance (exclusive of sales credits, which are included in the Global Wealth Management segment), merger and acquisition, and financial advisory services.

The Other segment includes certain corporate activities of our company.

Information concerning operations in these segments of business for the years ended December 31, 2009, 2008 and 2007 is as follows (*in thousands*):

Year Ended December 31,

2009

2008

2007

Net revenues: (1)

Global Wealth Management

\$

591,323

\$

471,005

\$

440,511

Capital Markets

494,092

	390,726
	302,931
Other	
	5,221
	8,606
	19,623
\$	1,090,636
\$	870,337
\$	763,065
	752

Income/(loss) before income taxes:

Global Wealth Management

100,048

98,097

96,343

Capital Markets

129,133

91,892

60,849

Other

(108,767

)

(98,220

)

754

	(103,346
)	
\$	
	120,414
\$	
	91,769
\$	
	53,846

(1) No individual client accounted for more than 10 percent of total net revenues for the years ended December 31, 2009, 2008 or 2007.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

The following table presents our company's total assets on a segment basis at December 31, 2009 and 2008 (*in thousands*):

**December 31,
2009**

December 31,
2008

Total assets:

Global Wealth Management

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

\$

2,226,050

\$

959,638

Capital Markets

701,213

243,130

Other

240,093

355,377

\$

3,167,356

\$

1,558,145

We have operations in the United States, United Kingdom and Europe. Our company's foreign operations are conducted through its wholly-owned subsidiary, SN Ltd. Substantially all long-lived assets are located in the United States.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Revenues, classified by the major geographic areas in which they are earned for the years ended December 31, 2009, 2008 and 2007, were as follows (*in thousands*):

December 31,

2009

2008

2007

Net revenues:

United States

\$

1,069,066

\$

837,152

\$

734,686

United Kingdom

13,527

21,610

760

	17,348
Other European	
	8,043
	11,575
	11,031
\$	1,090,636
\$	870,337
\$	763,065
	761

NOTE 25 - Other Comprehensive income/(loss)

The following table sets forth the components of other comprehensive income/(loss) for the years ended December 31, 2009, 2008 and 2007 (*in thousands*):

December 31,

2009

2008

2007

Net income

\$

75,798

\$

55,502

\$

32,170

Other comprehensive income/(loss):

Unrealized gains/(losses) on securities, net of tax

7,517

(6,634

)

(660

)

Unrealized losses in cash flow hedging instruments, net of tax

80

-

-

Reclassification adjustment for losses included in net income, net of tax

764

	-
	999
	-
Other comprehensive income/(loss), net of tax	
\$	83,395
\$	49,867
\$	31,510

NOTE 26 - Earnings Per Share

Basic EPS is computed by dividing earnings available to common shareholders by the weighted-average number of common shares outstanding. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. Diluted earnings per share include dilutive stock options and stock units under the treasury stock method.

The following table sets forth the computation of basic and diluted earnings per share for the years ended December 31, 2009, 2008 and 2007 (*in thousands, except per share data*):

December 31,

2009

2008

2007

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Net income

\$

75,798

\$

55,502

\$

32,170

Shares for basic and diluted calculations:

Average shares used in basic computation

28,297

768

	24,069
	21,754
Dilutive effect of stock options and units (1) (2)	
	3,997
	4,004
	3,969
Average shares used in diluted computation	
	32,294
	28,073
	769

25,723

Net income per share:

Basic

\$

2.68

\$

2.31

\$

1.48

Diluted (1) (2)

770

\$	2.35
\$	1.98
\$	1.25

(1) Diluted earnings per share is computed on the basis of the weighted average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method. Diluted earnings per share include stock options and units.

(2) For the years ended December 31, 2009, 2008 and 2007, there were no securities excluded from the weighted average diluted common shares calculation because their effect would be anti-dilutive.

NOTE 27 - Shareholders' Equity

On May 5, 2005, the board of directors authorized the repurchase of up to 3,000,000 additional shares in addition to an existing authorization of 1,500,000 shares. These purchases may be made on the open market or in privately negotiated transactions, depending upon market conditions

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

and other factors. Repurchased shares may be used to meet obligations under our employee benefit plans and for general corporate purposes. Under existing Board authorizations at December 31, 2009, we are permitted to buy an additional 2,010,831 shares. The repurchase program has no expiration date.

During the year ended December 31, 2009, we did not repurchase shares under existing board authorizations. We repurchased 567,953, and 132,912 shares for the years ending December 31, 2008, and 2007, respectively, using existing board authorizations, at average prices of \$27.96, and \$32.93 per share, respectively, to meet obligations under our employee benefit plans and for general corporate purposes. We reissued 581,833, and 119,032 shares during 2008, and 2007, respectively, for employee benefit plans. During 2009, 2008 and 2007, we issued 1,091,952, 2,980,259 and 5,281,770 new shares, respectively, for employee benefit plans.

As partial consideration of the purchase price of Ryan Beck, we issued 3,701,400 shares of common stock valued at \$27.70 per share and issued five-year immediately exercisable warrants, upon obtaining shareholder approval on June 22, 2007, to purchase up to 750,000 shares of our common stock at an exercise price of \$24.00 per share. The warrants were initially determined to be a liability recorded at fair value of \$16,440 as of the date of closing. Upon obtaining shareholder approval, the fair value of the warrants at that date of \$16,895 was reclassified to shareholders' equity. At December 31, 2009 and 2008, there were 746,950 and 747,419 warrants outstanding, respectively, to purchase shares of our common stock at an exercise price of \$24.00.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

On June 22, 2007, we issued 420,372 restricted stock units under the Stifel Financial Corp. 2007 Incentive Stock Plan (for Ryan Beck Employees) in exchange for Ryan Beck appreciation units held by Ryan Beck employees under Ryan Beck's deferred compensation plans. The value of the restricted stock units issued was \$39.73 per share, which was the price as of the date on which shareholder approval for the Plan was obtained. On June 29, 2007, the Ryan Beck deferred compensation plans were amended, resulting in the acceleration of vesting for the liability awards for certain Ryan Beck employees and the reclassification of \$16,673 from liabilities to additional paid-in capital. Additionally, on June 22, 2007 we issued 591,269 restricted stock units valued at \$23,493 using the closing stock price on that date as part of the retention program established for certain associates of Ryan Beck.

On January 14, 2008, we repurchased 375,000 shares of our company's outstanding common stock from BankAtlantic Bancorp, Inc. in a privately negotiated transaction. The shares were purchased at \$28.23 per share, the closing price on Friday, January 11, 2008. These shares had been initially acquired by BankAtlantic Bancorp, Inc. on February 28, 2007 pursuant to our acquisition of Ryan Beck. The repurchase transaction was effected pursuant to a previously announced authorization by our company's board of directors to acquire shares of common stock to meet obligations under our company's employee benefit plans and for general corporate purposes.

During the second quarter of 2008, we elected to pay the contingent earn-out for the Ryan Beck first year investment banking of \$1,790 in 57,059 shares of our common stock valued at \$31.35 per share, with partial shares paid in cash. On August 14, 2008, we agreed to prepay \$9,585 of BankAtlantic's pro-rata share of the estimated private client contingent earn-out payment in exchange for a \$10,000 permanent reduction of BankAtlantic's pro-rata share of the private client contingent payment. We elected to make such pre-payment using 233,500 shares of our common stock at an agreed upon per share price of \$41.05 per share.

On September 29, 2008, we completed the public offering of 1,495,000 new shares of our common stock at an offering price of \$45.00 per share, which generated gross proceeds of \$67,275 (net proceeds of \$64,369 after fees and expenses). Net proceeds were used for general corporate purposes.

On November 4, 2008, we issued 142,196 shares of our common stock in exchange for \$12,500 par value of 6.78% Cumulative Trust Preferred Securities. The Cumulative Trust Preferred Securities were originally offered and sold in a \$35,000 private placement by Stifel Financial Capital Trust IV, a non-consolidated wholly-owned subsidiary of our company, on June 28, 2007. As a result, we extinguished \$12,500 of our debenture to Stifel Financial Capital Trust IV in the fourth quarter and record an approximate \$6,700 gain before certain expenses and taxes.

During the first quarter of 2009, we paid \$9,301 related to the Ryan Beck two-year private client contingent earn-out in 271,353 shares of our company's common stock at an average price of \$34.30 per share, with partial shares paid in cash.

In June 2009, we completed an "at-the-market" public offering of 1,000,000 shares of our common stock at an average price of \$45.00 per share, which generated gross proceeds of \$45,000 (net proceeds of \$44,694 after fees and expenses). Net proceeds were used for general corporate purposes.

In September 2009, we completed a public offering of 1,725,000 shares of our common stock at an average price of \$56.00 per share, which generated gross proceeds of \$96,600 (net proceeds of \$91,770 after fees and expenses). Net proceeds were used for general corporate purposes.

NOTE 28 - Variable Interest Entities ("VIE")

The determination as to whether an entity is a VIE is based on the structure and nature of the entity. We also consider other characteristics such as the ability to influence the decision making relative to the entity's activities and how the entity is financed. The determination as to whether we are the primary beneficiary is based on a qualitative analysis of the VIE's expected losses and expected residual returns. This analysis includes a review of, among other factors, the VIE's capital structure, contractual terms, which interests create or absorb variability, related party relationships and the design of the VIE. Where qualitative analysis is not conclusive, we perform a quantitative analysis.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Our company's involvement with VIEs is limited to entities used as investment vehicles, the establishment of Stifel Financial Capital Trusts and our investment in a convertible promissory note.

We have formed several non-consolidated investment funds with third-party investors that are typically organized as limited liability companies or limited partnerships. These partnerships and LLCs have assets of approximately \$237,034 at December 31, 2009. For those funds where we act as the general partner, our company's economic interest is generally limited to management fee arrangements as stipulated by the Operating Agreements. We have generally provided the third-party investors with rights to terminate the funds or to remove us as the general partner. In assessing whether or not we have control we look to the accounting guidance in determining whether a general partner controls a limited partnership. Under the current accounting rules, the general partner in a limited partnership is presumed to control that limited partnership. The presumption may be overcome if the limited partners have either (1) the substantive ability to dissolve the limited partnership or otherwise remove the general partner without cause or (2) substantive participating rights, which provide the limited partners with the ability to effectively participate in significant decisions that would be expected to be made in the ordinary course of the limited partnership's business and thereby preclude the general partner from exercising unilateral control over the partnership. If the criteria are met, the consolidation of the partnership or limited liability company is required. Based on our evaluation of these entities, we determined that these entities do not require consolidation. Management fee revenue earned by our company during the years ended December 31, 2009, 2008 and 2007 was insignificant.

Debenture to Stifel Financial Capital Trusts

We have completed private placements of cumulative trust preferred securities through Stifel Financial Capital Trust II, Stifel Financial Capital Trust III, and Stifel Financial Capital Trust IV (collectively, the "Trusts"). The Trusts are non-consolidated wholly-owned business trust subsidiaries of our company and were established for the limited purpose of issuing trust securities to third parties and lending the proceeds to our company.

The trust preferred securities represent an indirect interest in junior subordinated debentures purchased from our company by the Trusts, and we effectively provide for the full and unconditional guarantee of the securities issued by the Trusts. We make timely payments of interest to the Trusts as required by contractual obligations, which are sufficient to cover payments due on the securities issued by the Trusts and believe that it is unlikely that any circumstances would occur that would make it necessary for our company to make payments related to these Trusts other than those required under the terms of the debenture agreements and the trust preferred securities agreements. The Trusts were determined to be VIEs because the holders of the equity investment at risk do not have adequate decision making ability over the Trust's activities. Our investment in the Trusts is not a variable interest because equity interests are variable interests only to the extent that the investment is considered to be at risk. Because our investment was funded by the Trusts, it is not considered to be at risk.

Investment in FSI Group, LLC ("FSI")

We have provided financing of \$18,000 in the form of a convertible promissory note to FSI, a limited liability company specializing in investing in banks, thrifts, insurance companies, and other financial services firms. The note is convertible at our election into a 49.9% interest in FSI at any time after the third anniversary or during the defined conversion period. The convertible promissory note has a minimum coupon rate equal to 10% per annum plus additional interest related to certain defined cash flows of the business, not to exceed 18% per annum. As we do not absorb a majority of the expected losses, or receive a majority of the expected residual returns, it was determined that we are not the primary beneficiary.

Our company's exposure to loss is limited to the carrying value of the note with FSI at December 31, 2009 of \$18,000, which is included in "Other assets" on the consolidated statements of financial condition. Our Company had no liabilities related to this entity at December 31, 2009. We have the discretion to make additional capital contributions. We have not provided financial or other support to FSI that we were not previously contractually required to provide as of December 31, 2009. Our company's involvement with FSI has not had a material effect on its consolidated financial position, operations or cash flows.

NOTE 29 - Subsequent Events

In accordance with ASC 855 "Subsequent Events," we evaluate subsequent events that have occurred after the balance sheet date but before the financial statements are issued. There are two types of subsequent events: (1) recognized, or those that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements, and (2) non-recognized, or those that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. We evaluated subsequent events through February 26, 2010. Based on the evaluation, we did not identify any recognized subsequent events that required adjustment to or disclosure in the consolidated financial statements.

NOTE 30 -Quarterly Financial Information (Unaudited)

1st Quarter

2nd Quarter

3rd Quarter

4th Quarter

2009:

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Total revenues

\$

222,332

\$

264,550

\$

292,589

\$

323,399

Interest expense

\$

2,351

\$

3,045

\$

2,906

776

\$ 3,932

Net revenues

\$ 219,981

\$ 261,505

\$ 289,683

\$ 319,467

Non-interest expense

\$ 197,826

\$ 235,396

\$ 777

258,847

\$

278,153

Income before income taxes

\$

22,155

\$

26,109

\$

30,836

\$

41,314

Net income

\$

13,177

\$

15,815

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

\$

22,138

\$

24,668

Earnings per common share:

Basic

\$

0.49

\$

0.58

779

\$	0.77
\$	0.82
Diluted	
\$	0.44
\$	0.51
\$	0.67
\$	0.71

1st Quarter

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

2nd Quarter

3rd Quarter

4th Quarter

2008:

Total revenues

\$

217,242

\$

214,020

782

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

\$ 223,829

\$ 233,756

Interest expense

\$ 5,765

\$ 5,069

\$ 4,906

\$ 2,770

Net revenues

\$ 211,477

\$ 783

	208,951
\$	
	218,923
\$	
	230,986
Non-interest expense	
\$	
	187,552
\$	
	188,801
\$	
	197,829
\$	
	204,386
Income before income taxes	
\$	
	23,925

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

\$	20,150
\$	21,094
\$	26,600
Net income	
\$	14,347
\$	12,332
\$	12,777
\$	16,046
Earnings per common share:	

Basic			
\$			0.61
\$			0.53
\$			0.54
\$			0.62
Diluted			
\$			

0.54

\$

0.45

\$

0.46

\$

0.53

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

As of the end of the period covered by this report, an evaluation was carried out by the management Stifel Financial Corp., with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures were effective as of the end of the period covered by this report. In addition, no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during the fourth quarter of our fiscal year ended December 31, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

Management of Stifel Financial Corp., together with its consolidated subsidiaries, is responsible for establishing and maintaining adequate internal control over financial reporting. Our company's internal control over financial reporting is a process designed under the supervision of our principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our consolidated financial statements for external purposes in accordance with U.S. generally accepted accounting principles. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

As of December 31, 2009, we conducted an assessment of the effectiveness of our company's internal control over financial reporting based on the framework established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, we have determined that our company's internal control over financial reporting as of December 31, 2009 was effective.

Our internal control over financial reporting includes those policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of our company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our company's assets that could have a material effect on our consolidated financial statements.

Our company's internal control over financial reporting as of December 31, 2009 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report appearing on the following page, which expresses an unqualified opinion on the effectiveness of our company's internal control over financial reporting as of December 31, 2009.

Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting

The Board of Directors and Shareholders

of Stifel Financial Corp.

We have audited Stifel Financial Corp.'s (the "Company's") internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of the effectiveness to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the Company as of December 31, 2009 and 2008, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the two years in the period ended December 31, 2009 and our report dated February 26, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Chicago, Illinois
February 26, 2010

ITEM 9B. OTHER INFORMATION

None

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information regarding our Board of Directors and committees, our Corporate Governance, compliance with Section 16(a) of the Securities Exchange Act of 1934, and procedures by which stockholders may recommend nominees to our Board of Directors is contained in our Proxy Statement for the 2010 Annual Meeting of Stockholders to be filed with the SEC within 120 days after our fiscal year end, which information is incorporated herein by reference.

Information regarding the executive officers is contained in Part 1, Item 1, "Executive Officers of the Registrant," hereof. There is no family relationship between any of the directors or named executive officers.

Under Section 303A.12 (a) NYSE Listed Company Manual, the CEO certification was submitted to the NYSE after the 2009 Annual Meeting of Stockholders.

ITEM 11. EXECUTIVE COMPENSATION

Information regarding compensation of certain executive officers and directors ("Executive Compensation"), as well as "Compensation Committee Interlocks and Insider Participation" and "Compensation Committee Report" is contained in our Proxy Statement for the 2010 Annual Meeting of Stockholders to be filed with the SEC within 120 days after our fiscal year end, which information is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Securities authorized for issuance under equity compensation plans

The following table provides information as of December 31, 2009 with respect to the shares of our common stock that may be issued under our existing equity compensation plans.

Plan category

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Number of securities to be issued upon exercise of outstanding options and units

Weighted-average exercise price of outstanding options and units

Number of securities remaining available for future issuance under equity compensation plans

Equity compensation plans approved by the shareholders

8,052,940

\$

26.33

3,787,868

Equity compensation plans not approved by the shareholders

22,806

\$

6.00

-

791

8,075,746

\$

26.27

3,787,868

On December 31, 2009, the total number of securities to be issued upon exercise of options and units consisted of 987,149 options and 7,088,597 units for a total of 8,075,746 shares. The equity compensation plans approved by the stockholders contained 987,149 options and 7,065,791 units for a total of 8,052,940 shares. The equity compensation plan not approved by the stockholders contained 22,806 units.

Equity compensation plans approved by stockholders

The total options granted as of December 31, 2009 for equity compensation plans approved by the stockholders consists of 82,143 shares subject to options granted under the 1997 Stock Incentive Plan, 828,324 shares subject to options granted under the 2001 Incentive Stock Plan, and 76,682 shares subject to options granted under the Equity Incentive Plan for Non-Employee Directors.

The total units granted as of December 31, 2009 for equity compensation plans approved by the stockholders consists of 6,167,512 shares that are subject to stock units granted under the 2001 Incentive Stock Plan, 772,629 under the 2007 Incentive Stock Plan and 125,650 shares that are subject to stock units granted under the Equity Incentive Plan for Non-Employee Directors.

As of December 31, 2009, the remaining shares available for future grants or awards under equity compensation plans approved by the stockholders consist of 3,069,112 shares under the 2001 Incentive Stock Plan, 442,761 under the 2007 Incentive Stock Plan and 275,995 shares under the Equity Incentive Plan for Non-Employee Directors for a total of 3,787,868 shares.

Equity compensation plans not approved by stockholders

Equity compensation plans not approved by the stockholders as of December 31, 2009 include 22,806 shares that are subject to stock units granted to our investment financial advisors and administrative employees who are not executive officers pursuant to a Wealth Accumulation Plan. The Wealth Accumulation Plan was not approved by our stockholders nor funded by another stock-based compensation plan approved by our stockholders. There were no shares reserved for future grants or awards under this plan as of December 31, 2009.

Security ownership of certain beneficial owners

Information regarding security ownership of certain beneficial owners is contained in "Ownership of Certain Beneficial Owners," included in our Proxy Statement for the 2010 Annual Meeting of Stockholders to be filed with the SEC within 120 days after our fiscal year end, which information is incorporated herein by reference.

Security ownership of management

Information regarding security ownership of certain beneficial owners and management is contained in "Ownership of Directors, Nominees and Executive Officers," included in our Proxy Statement for the 2010 Annual Meeting of Stockholders to be filed with the SEC within 120 days after our fiscal year end, which information is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information regarding certain relationships and related transactions and director independence is contained in "Certain Relationships and Related Transactions," and "Director Independence" included in our Proxy Statement for the 2010 Annual Meeting of Stockholders to be filed with the SEC within 120 days after our fiscal year end, which information is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information regarding principal accounting fees and services is contained in "Ratification of Appointment of Independent Registered Public Accounting Firm," included in our Proxy Statement for the 2010 Annual Meeting of Stockholders to be filed with the SEC within 120 days after our fiscal year end, which information is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. Financial Statements

The following financial statements are included in Item 8, "Financial Statements and Supplementary Data," and incorporated by reference hereto:

	Page
Reports of Independent Registered Public Accounting Firms	87
Consolidated Financial Statements:	
Statements of Financial Condition as of December 31, 2009 and 2008	89
Statements of Operations for the years ended December 31, 2009, 2008 and 2007	91
Statements of Shareholders' Equity for the years ended December 31, 2009, 2008 and 2007	92
Statements of Cash Flows for the years ended December 31, 2009, 2008 and 2007	94
Notes to the Consolidated Financial Statements	97

2. Financial Statement Schedules

All schedules are omitted since the required information is either not applicable, not deemed material, or is shown in the respective financial statements or in the notes thereto.

(b) Exhibits

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Exhibit No.

Description

3.

(a)

Restated Certificate of Incorporation and as amended of Financial filed with the Secretary of State of Delaware on May31, 2001, incorporated herein by reference to Exhibit 3.(a) to Stifel Financial Corp.'s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2001.

(b)

Amended and Restated By-Laws of Financial, incorporated herein by reference to Exhibit 3. (b)(1) to Stifel Financial Corp.'s Annual Report on Form 10-K for fiscal year ended July 30, 1993.

4.

Registration Rights Agreement dated February 28, 2007 of Financial, incorporated herein by reference to Stifel Financial Corp.'s Current Report on Form 8-K/A filed March 6, 2007.

10.

(a)

Form of Indemnification Agreement with directors dated as of June 30, 1987, incorporated herein by reference to Exhibit 10.2 to Stifel Financial Corp.'s Current Report on Form 8-K (date of earliest event reported - June 22, 1987) filed July 14, 1987.

(b)

Dividend Reinvestment and Stock Purchase Plan of Financial, incorporated herein by reference to Stifel Financial Corp.'s Registration Statement on Form S-3 (Registration File No. 33-53699) filed May 18, 1994.

(c)

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Amended and Restated 1997 Incentive Plan of Financial, incorporated herein by reference to Stifel Financial Corp.'s Registration Statement on Form S-8 (Registration File No. 333-84717) filed on August 6, 1999. *

(d)(1)

Employment Letter with Ronald J. Kruszewski, incorporated herein by reference to Exhibit 10.(l) to Stifel Financial Corp.'s Annual Report on Form 10-K for the year ended December 31, 1997.*

(d)(2)

Stock Unit Agreement with Ronald J. Kruszewski, incorporated herein by reference to Exhibit 10.(j)(2) to Stifel Financial Corp.'s Annual Report on Form 10-K for the year ended December 31, 1998. *

(e)

1999 Executive Incentive Performance Plan of Financial, incorporated herein by reference to Annex B of Stifel Financial Corp.'s Proxy Statement for the 1999 Annual Meeting of Stockholders filed March 26, 1999. *

(f)

Equity Incentive Plan for Non-Employee Directors of Financial, incorporated herein by reference to Stifel Financial Corp.'s Registration Statement on Form S-8 (Registration File No. 333-52694) filed December 22, 2000. *

(g)(1)

Stifel, Nicolaus & Company, Incorporated Wealth Accumulation Plan, incorporated herein by reference to Stifel Financial Corp.'s Registration Statement on Form S-8 (Registration File No. 333-60506) filed May 9, 2001. *

(g)(2)

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Stifel, Nicolaus & Company, Incorporated Wealth Accumulation Plan Amendment No. 1, incorporated herein by reference to Stifel Financial Corp.'s Registration Statement on Form S-8 (Registration File No. 333-105759) filed June 2, 2003. *

(h)

Stifel Nicolaus Profit Sharing 401(k) Plan, incorporated herein by reference to Stifel Financial Corp.'s Registration Statement on Form S-8 (Registration File No. 333-60516) filed May 9, 2001.*

(i)(1)

Stifel Financial Corp. 2001 Incentive Plan, incorporated herein by reference to Stifel Financial Corp.'s Registration Statement on Form S-8 (Registration File No. 333-82328) filed February 7, 2002. *

(i)(2)

Stifel Financial Corp. 2001 Incentive Plan Amendment No. 1, incorporated herein by reference to Stifel Financial Corp.'s Registration Statement on Form S-8 (Registration File No. 333-105756) filed June 2, 2003. *

(i)(3)

Stifel Financial Corp. 2001 Incentive Plan Amendment No. 2, incorporated herein by reference to Stifel Financial Corp.'s Registration Statement on Form S-8 (Registration File No. 333-140662) filed February 13, 2007. *

(j)

Stock Unit Agreement with James M. Zemlyak dated January 11, 2000, incorporated herein by reference to Exhibit 10.(s) to Stifel Financial Corp.'s Annual Report on Form 10-K / A Amendment No. 1 for the year ended December 31, 2001, filed on April 9, 2002. *

Exhibit No.

Description

(k)

Stock Unit Agreement with Scott B. McCuaig dated December 20, 1998, incorporated herein by reference to Exhibit 10.(t) to Stifel Financial Corp.'s Annual Report on Form 10-K / A Amendment No. 1 for the year ended December 31, 2001, filed on April 9, 2002. *

(l)

Amended and Restated Promissory Note dated December 21, 1998, from Ronald J. Kruszewski payable to Financial, incorporated herein by reference to Exhibit 10.(u) to Stifel Financial Corp.'s Annual Report on Form 10-K / A Amendment No. 1 for the year ended December 31, 2001, filed on April 9, 2002. *

(m)(1)

Third Amendment to Lease by and among EBS Building, L.L.C., Stifel Financial Corp., and Stifel, Nicolaus & Company, Incorporated, dated September 1, 1999, incorporated herein by reference to EBS Building, L.L.C.'s Annual Report on Form 10-K (File No. 000-24167) for the year ended December 31, 2001.

(m)(2)

Fourth Amendment to Lease by and among EBS Building, L.L.C., Stifel Financial Corp., and Stifel, Nicolaus & Company, Incorporated, dated November 1, 1999, incorporated herein by reference to EBS Building, L.L.C.'s Annual Report on Form 10-K (File No. 000-24167) for the year ended December 31, 2001.

(m)(3)

Fifth Amendment to Lease by and among EBS Building, L.L.C., Stifel Financial Corp., and Stifel, Nicolaus & Company, Incorporated dated June 11, 2001, incorporated herein by reference to EBS Building, L.L.C.'s Annual Report on Form 10-K (File No. 000-24167) for the year ended December 31, 2001.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

(n)

Stifel Financial Corp. 2003 Employee Stock Purchase Plan, incorporated herein by reference to Stifel Financial Corp.'s Registration Statement on Form S-8 (Registration File No. 333-100414) filed October 8, 2002. *

(o)(1)

Acquisition agreement by and between Stifel Financial Corp. and Citigroup Inc., incorporated herein by reference to Exhibit 10 to Stifel Financial Corp.'s quarterly report on Form 10-Q/A No. 1 for the quarterly period ended September 30, 2005.

(o)(2)

Amendment No.1 to Acquisition Agreement by and between Stifel Financial Corp. and Citigroup Inc., incorporated herein by reference to Exhibit 10.(v)(2) to Stifel Financial Corp.'s Annual Report on Form 10-K for the year ended December 31, 2005, filed on March 16, 2006.

(o)(3)

Amendment No.2 to Acquisition Agreement by and between Stifel Financial Corp. and Citigroup Inc., incorporated herein by reference to Exhibit 10.(v)(3) to Stifel Financial Corp.'s Annual Report on Form 10-K for the year ended December 31, 2005, filed on March 16, 2006.

(p)

Employment Agreement with Richard Himelfarb dated September 6, 2005, incorporated herein by reference to Exhibit 10.(p) to Stifel Financial Corp.'s Annual Report on Form 10-K/A Amendment No. 1 for the year ended December 31, 2005, filed on January 26, 2007. *

(q)

Employment Agreement with Thomas Mulroy dated September 7, 2005, incorporated herein by reference to Exhibit 10.(q) to Stifel Financial Corp.'s Annual Report on Form 10-K/A Amendment No. 1 for the year ended December 31, 2005, filed on January 26, 2007. *

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

(r)

Agreement and Plan of Merger, dated as of November 20, 2006, by and among Stifel Financial Corp., FSFC Acquisition Co. and First Service Financial Company incorporated herein by reference to Exhibit 2.1 to Stifel Financial Corp.'s Current Report on Form 8-K (date of earliest event reported-November 20, 2006) filed on November 20, 2006.

(s)(1)

Office Sublease Agreement by and between Deutsch Bank Securities, Inc. (Lessor) and Stifel, Nicolaus & Company, Incorporated (Lessee), incorporated herein by reference to Exhibit 10.(t)(1) to Stifel Financial Corp.'s Annual Report on Form 10-K/A Amendment No. 1 for the year ended December 31, 2006, filed on June 28, 2007.

(s)(2)

Office Lease Agreement by and between ABB South Street Associates, LLC (Landlord) and Stifel, Nicolaus & Company, Incorporated (Tenant), incorporated herein by reference to Exhibit 10.(t)(1) to Stifel Financial Corp.'s Annual Report on Form 10-K/A Amendment No. 1 for the year ended December 31, 2006, filed on June 28, 2007.

Exhibit No.

Description

(t)(1)

Agreement and Plan of Merger, dated as of January 8, 2007 by and among Stifel Financial Corp., SF RB Merger Sub, Inc., BankAtlantic Bancorp, Inc. and Ryan Beck Holdings, Inc. incorporated herein by reference to Exhibit 2.1 to Stifel Financial Corp.'s Current Report on Form 8-K / A (date of earliest event reported-January 8, 2007) filed on January 12, 2007.

(t)(2)

Amendment No.1 to Merger Agreement by and among Stifel Financial Corp. and BankAtlantic Bancorp, Inc. incorporated herein by reference to Exhibit 2.1 to Stifel Financial Corp.'s Current Report on Form 8-K (date of earliest event reported August 14, 2008) filed on August 15, 2008.

(u)

Stifel Financial Corp. 2007 Incentive Stock Plan, incorporated herein by reference to Stifel Financial Corp.'s Registration Statement on Form S-8 (Registration File No. 333-145990) filed September 11, 2007. *

(v)

Purchase Agreement among Stifel Financial Corp., The Western and Southern Life Insurance Company ("Western and Southern"), and Stifel, Nicolaus & Company, Incorporated, Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, and Keefe, Bruyette & Woods, Inc. incorporated herein by reference to Exhibit 10.1 to Stifel Financial Corp.'s Current Report on Form 8-K (date of earliest event reported September 24, 2008) filed on September 29, 2008.

(x)

Stock Purchase Agreement, dated December 18, 2008, by and among Stifel Financial Corp., Butler Wick & Co. Inc. and Butler Wick Corp., incorporated herein by reference to Exhibit 10. (x) to Stifel Financial Corp.'s Annual Report on Form 10-K for the year ended December 31, 2008, filed on February 27, 2009.

(y)

Asset Purchase Agreement dated March 23, 2009, by and between Stifel Nicolaus & Company, Incorporated and UBS Financial Services, Inc. incorporated herein by reference to Exhibit 2.1 to Stifel Financial Corp.'s Current Report on Form 8-K (date of earliest event reported March 23, 2009) filed on March 23, 2009.

(z)

Amendment No. 1 to Asset Purchase Agreement, dated May 4, 2009, by and between StifelNicolaus & Company, Incorporated and UBS Financial Services, Inc. incorporated herein by reference to Exhibit 2.1 to Stifel Financial Corp.'s Current Report on Form 8-K (date of earliest event reported May 4, 2009) filed on May 11, 2009.

(aa)

Amendment No. 2 to Asset Purchase Agreement, dated June 1, 2009, by and between Stifel, Nicolaus & Company, Incorporated and UBS Financial Services, Inc. incorporated herein by reference to Exhibit 10 (aa) to Stifel Financial Corp.'s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2009 filed on November 9, 2009.

(bb)

Amendment No. 3 to Asset Purchase Agreement, dated August 12, 2009, by and between Stifel, Nicolaus & Company, Incorporated and UBS Financial Services, Inc. incorporated herein by reference to Exhibit 2.1 to Stifel Financial Corp.'s Current Report on Form 8-K (date of earliest event reported August 12, 2009) filed on August 18, 2009.

(cc)

Amendment No. 4 to Asset Purchase Agreement, dated September 11, 2009, by and between Stifel, Nicolaus & Company, Incorporated and UBS Financial Services, Inc. incorporated herein by reference to Exhibit 10 (cc) to Stifel Financial Corp.'s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2009 filed on November 9, 2009.

(dd)

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Office Sublease Agreement by and between The Bear Stearns Companies LLC (Landlord) and Stifel, Nicolaus & Company, Incorporated (Tenant), incorporated herein by reference to Exhibit 10 (dd) to Stifel Financial Corp.'s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2009 filed on November 9, 2009.

(ee)

Employment Agreement with Victor Nesi dated June 25, 2009, filed herewith. *

11.

Computation of Per Share Earnings is set forth in Note 26 of Notes to Consolidated Financial Statements included in this Form 10-K.

16.

Letter from Stifel Financial Corp.'s former independent accountant regarding its concurrence with the statements made by the Company in the current report concerning the dismissal as the Company's principal accountant is incorporated herein by reference to Exhibit 16 to Stifel Financial Corp.'s Current Report on Form 8-K (date of earliest event reported April 8, 2008) filed on April 14, 2008.

Exhibit No.

Description

21.

List of Subsidiaries of Stifel Financial Corp., filed herewith.

23.1

Consent of Independent Registered Public Accounting Firm, filed herewith.

23.2

Consent of Independent Registered Public Accounting Firm, filed herewith.

31.1.

Rule 13a-14(a) Certification of Chief Executive Officer.

31.2.

Rule 13a-14(a) Certification of Chief Financial Officer.

32.1

Section 1350 Certification of Chief Executive Officer. **

32.2.

Section 1350 Certification of Chief Financial Officer. **

* Management contract or compensatory plan or arrangement.

** The certifications attached as Exhibits 32.1 that accompany this Annual Report on Form 10-K, are not deemed filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of Stifel Financial Corp. under the Securities Act of 1933, as amended, or the Securities Act of 1934, as amended, whether made before or after the date of this Form 10-K, irrespective of any general incorporation language contained in such filing.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on February 26, 2010.

STIFEL FINANCIAL CORP.

By:

/s/ Ronald J. Kruszewski

Ronald J. Kruszewski
Chairman of the Board, President,
Chief Executive Officer, and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on February 26, 2010.

/s/

Ronald J. Kruszewski

Chairman of the Board, President,
Chief Executive Officer, and Director
(Principal Executive Officer)

Ronald J. Kruszewski

/s/

James M. Zemlyak

Senior Vice President, Chief Financial
Officer, Treasurer, and Director
(Principal Financial and Accounting Officer)

James M. Zemlyak

/s/

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Bruce A. Beda

Director

Bruce A. Beda

/s/

Charles A. Dill

Director

Charles A. Dill

/s/

John P. Dubinsky

Director

John P. Dubinsky

/s/

Richard F. Ford

Director

Richard F. Ford

/s/

Frederick O. Hanser

Director

Frederick O. Hanser

/s/

Richard J. Himelfarb

Director

Richard J. Himelfarb

/s/

Robert E. Lefton

Director

Robert E. Lefton

/s/

Scott B. McCuaig

Director

Scott B. McCuaig

/s/

Thomas P. Mulroy

Director

Thomas P. Mulroy

/s/

Victor J. Nesi

Director

Victor J. Nesi

/s/

James M. Oates

Director

James M. Oates

/s/

Ben A. Plotkin

Director

Ben A. Plotkin

/s/

Kelvin R. Westbrook

Director

Kelvin R. Westbrook